Westpac New Zealand Limited
Disclosure Statement
For the six months ended 31 March 2012

Index

General information and definitions

Certain of the information contained in this Disclosure Statement is required by section 81 of the Reserve Bank of New Zealand Act 1989 ('**Reserve Bank Act**') and the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2012 ('**Order**').

In this Disclosure Statement, reference is made to:

- Westpac New Zealand Limited (otherwise referred to as the '**Bank**'); and
- Westpac New Zealand Limited and its controlled entities (otherwise referred to as the '**Banking Group**'). Controlled entities of the Bank as at 30 September 2011 are set out in Note 26 to the Bank's financial statements included in the Disclosure Statement for the year ended 30 September 2011. Except as detailed in Notes 2, 10 and 19 to the financial statements included in this Disclosure Statement, there have been no other changes in the structure or composition of the Banking Group since 30 September 2011.

Words and phrases not defined in this Disclosure Statement, but defined by the Order, have the meaning given by the Order when used in this Disclosure Statement. All amounts referred to in this Disclosure Statement are in New Zealand dollars unless otherwise stated.

General matters

Registered Bank

The Bank was incorporated as Westpac New Zealand Limited under the Companies Act 1993 (Company Number 1763882) on 14 February 2006. The head office of the Bank is situated at Westpac on Takutai Square, 16 Takutai Square, Auckland 1010, New Zealand and the address for service of process on the Bank is Westpac on Takutai Square, 53 Galway Street, Auckland, New Zealand.

The Bank is a subsidiary of Westpac New Zealand Group Limited ('**WNZGL**'), a New Zealand company, which in turn is a wholly-owned subsidiary of Westpac Overseas Holdings No. 2 Pty Limited ('**WOHL**'), an Australian company. WOHL is, in turn, a wholly-owned subsidiary of Westpac Banking Corporation, an Australian company ('**Ultimate Parent Bank**'). The Ultimate Parent Bank is incorporated in Australia under the Australian Corporations Act 2001 and its address for service of process is Level 20, Westpac Place, 275 Kent Street, Sydney, New South Wales 2000, Australia.

At 31 March 2012, WNZGL had a direct qualifying interest in 88% of the voting securities of the Bank, and WOHL had a direct qualifying interest in 12% of the voting securities of the Bank. On 9 May 2012, the Bank repurchased 20,000 B voting shares from WOHL (representing the 12% of voting securities of the Bank that WOHL had a direct qualifying interest in). These shares were immediately cancelled on repurchase. Following this repurchase of B voting shares, WNZGL now has a direct qualifying interest in 100% of the voting securities of the Bank. The Ultimate Parent Bank has an indirect qualifying interest in 100% of the voting securities of the Bank.

WNZGL has the ability to directly appoint up to 100% of the Board of Directors of the Bank (the '**Board**') and, as indirect holding companies of the Bank, both the Ultimate Parent Bank and WOHL have the ability to indirectly appoint up to 100% of the Board.

In addition, the Ultimate Parent Bank has the power under the Bank's constitution to directly appoint up to 100% of the Board from time to time by giving written notice to the Bank.

All appointments to the Board must be approved by the Reserve Bank of New Zealand ('**Reserve Bank**') (refer to the Bank's conditions of registration on page 4 of this Disclosure Statement for details of the Reserve Bank's approval process).

Until 1 November 2006, the Ultimate Parent Bank operated through a branch in New Zealand. Effective 1 November 2006, the Ultimate Parent Bank has operated in New Zealand through both a branch of the Ultimate Parent Bank ('**NZ Branch**') (carrying on institutional banking and financial markets operations) and the Bank (a locally incorporated subsidiary of the Ultimate Parent Bank carrying on the Ultimate Parent Bank's New Zealand consumer and business banking operations). On 1 November 2011, the NZ Branch transferred additional business activities and associated employees to the Bank (refer to Note 2 Business combination – transfer of operations for further details).

Details of the Ultimate Parent Bank

There has been no change in the legal identity of the Ultimate Parent Bank since 30 September 2011. There have been no changes to the name or address for service of process on the Ultimate Parent Bank since 30 September 2011. The Westpac Banking Corporation Group (otherwise referred to as the '**Ultimate Parent Bank Group**') refers to the total worldwide business of the Ultimate Parent Bank, including its controlled entities.

Limits on material financial support by the Ultimate Parent Bank

Since 30 September 2011, there has been no material change in the regulations, legislation, or other restrictions of a legally enforceable nature that may materially inhibit the legal ability of the Ultimate Parent Bank to provide material financial support to the Bank.

Directors

The following changes in the composition of the Board have been effected since 30 September 2011:

- George Frazis resigned from the Board with effect from 13 April 2012; and
- Peter Graham Clare was appointed to the Board with effect from 13 April 2012.

Credit ratings

The Bank has the following credit ratings with respect to its long-term senior unsecured obligations, including obligations payable in New Zealand in New Zealand dollars, as at the date the Directors signed this Disclosure Statement:

Rating Agency	Current Credit Rating	Rating Outlook
Fitch Ratings	AA-	Stable
Moody's Investors Service	Aa3	Stable
Standard & Poor's	AA-	Stable

On 30 January 2012, Fitch Ratings ('**Fitch**') placed the Bank's credit rating on 'rating watch negative'. The announcement by Fitch formed part of a broader review of the debt ratings Fitch applies to the largest banking institutions in the world. On 24 February 2012, the Bank's credit rating issued by Fitch was downgraded from AA to AA- with a 'stable' outlook.

There have been no other changes to any of the Bank's credit ratings or rating outlooks since 31 December 2011.

Credit ratings (continued)

A credit rating is not a recommendation to buy, sell or hold securities of the Bank. Such ratings are subject to revision, qualification, suspension or withdrawal at any time by the assigning rating agency. Investors in the Bank's securities are cautioned to evaluate each rating independently of any other rating.

Guarantee arrangements

Certain material obligations of the Bank are guaranteed as at the date the Directors signed this Disclosure Statement.

Government Wholesale Guarantee

The Bank has a Wholesale Funding Guarantee Facility Deed and Wholesale Funding Guarantee with the New Zealand Government ('**Crown**'), each dated 23 February 2009 (together the '**Wholesale Guarantee**').

The Wholesale Guarantee closed on 30 April 2010 from which date no new Guarantee Eligibility Certificates can be issued. Guarantee Liabilities existing as at 30 April 2010 were not affected.

Description of Wholesale Guarantee

The following description of the Wholesale Guarantee is for general information purposes only and does not purport to be exhaustive. Further information about the Wholesale Guarantee is available from the Treasury internet site www.treasury.govt.nz.

The guarantor of the Bank's obligations under the Wholesale Guarantee is the Crown. The Crown's address for service in relation to the Wholesale Guarantee is:

(i) Minister of Finance, Parliament Buildings, Wellington; or

(ii) New Zealand High Commissioner in London at the address of the New Zealand High Commission in London for the time being; or

(iii) New Zealand Consul and Trade Commissioner at the address of the New Zealand Consulate-General in New York for the time being;

in each case with a copy (with delivery made by hand or facsimile) to: The Treasurer, The New Zealand Debt Management Office, 1 The Terrace, Wellington, New Zealand.

Further information about the Wholesale Guarantee is included in the Bank's Disclosure Statement for the year ended 30 September 2011. A copy of the Bank's Disclosure Statement for the year ended 30 September 2011 is available, free of charge, at the internet address www.westpac.co.nz. A printed copy will also be made available, free of charge, upon request and will be dispatched by the end of the second working day after the day on which the request is made.

Summary of obligations guaranteed

The obligations guaranteed by the Crown under the Wholesale Guarantee are obligations of the Bank to pay money to a Beneficiary (as defined below) under a Guaranteed Liability. A Guaranteed Liability is a liability to pay principal or interest in respect of which the Crown has issued a Guarantee Eligibility Certificate under the Wholesale Guarantee.

In this context, a Beneficiary means each person to whom a Guaranteed Liability is owed, excluding a 'Related Party' of the Bank as that term is defined in the Wholesale Guarantee and anyone acting as a nominee of, or trustee for, a Related Party.

The Crown has issued Guarantee Eligibility Certificates in respect of payment obligations of the Bank under certain notes issued by the Bank. The Crown has also issued Guarantee Eligibility Certificates in respect of payment obligations of the Bank as guarantor of certain notes issued by Westpac Securities NZ Limited ('**WSNZL**'), a controlled entity of the Bank. Copies of the Guarantee Eligibility Certificates issued, which provide further details of the obligations of the Bank guaranteed by the Crown under the Wholesale Guarantee, are available on the New Zealand Treasury internet site www.treasury.govt.nz.

Expiry of the Wholesale Guarantee

For each Guaranteed Liability the guarantee under the Wholesale Guarantee will expire at midnight on the date falling 30 days after the earlier of:

(i) the scheduled maturity date of the security under which that Guaranteed Liability arises; and

(ii) the date falling five years after the issue date of the security under which that Guaranteed Liability arises.

There is no provision for the withdrawal of the Wholesale Guarantee in respect of a Guaranteed Liability.

There have been no changes to the terms of the Wholesale Guarantee since the date of signing of the Bank's Disclosure Statement for the year ended 30 September 2011.

Pending proceedings or arbitration

There are no pending legal proceedings or arbitration as at the date this Disclosure Statement is signed involving any member of the Banking Group, whether in New Zealand or elsewhere, that may have a material adverse effect on the Banking Group or the Bank.

The contingent liabilities of the Banking Group are set out in Note 11 Commitments and contingent liabilities.

Conditions of registration

The conditions of registration imposed on the Bank, which applied on and from 31 December 2011, are as follows:

1. That the Banking Group complies with the following requirements:

   (a) the Total Capital ratio of the Banking Group calculated in accordance with the Reserve Bank of New Zealand ('**Reserve Bank**') document 'Capital adequacy framework (internal models based approach)' (BS2B) dated June 2011 is not less than 8%;

   (b) the Tier One Capital ratio of the Banking Group calculated in accordance with the Reserve Bank document 'Capital adequacy framework (internal models based approach)' (BS2B) dated June 2011 is not less than 4%; and

   (c) the Capital of the Banking Group calculated in accordance with the Reserve Bank document 'Capital adequacy framework (internal models based approach)' (BS2B) dated June 2011 is not less than $30 million.

   For the purposes of this condition of registration the scalar referred to in the Reserve Bank document 'Capital adequacy framework (internal models based approach)' (BS2B) dated June 2011 is 1.06.

Conditions of registration (continued)

1A. That:

(a) the Bank has an internal capital adequacy assessment process ('**ICAAP**') that accords with the requirements set out in the document 'Guidelines on a bank's internal capital adequacy assessment process ('ICAAP')' (BS12) dated December 2007;

(b) under its ICAAP the Bank identifies and measures its 'other material risks' defined as all material risks of the Banking Group that are not explicitly captured in the calculation of Tier One and Total Capital ratios under the requirements set out in the document 'Capital adequacy framework (internal models based approach)' (BS2B) dated June 2011; and

(c) the Bank determines an internal capital allocation for each identified and measured 'other material risk'.

1B. That the Banking Group complies with all requirements set out in the Reserve Bank document 'Capital adequacy framework (internal models based approach)' (BS2B) dated June 2011.

2. That the Banking Group does not conduct any non-financial activities that in aggregate are material relative to its total activities.

In this condition of registration, the meaning of 'material' is based on generally accepted accounting practice.

3. That the Banking Group's insurance business is not greater than 1% of its total consolidated assets.

For the purposes of this condition of registration, the Banking Group's insurance business is the sum of the following amounts for entities in the Banking Group:

(a) if the business of an entity predominantly consists of insurance business and the entity is not a subsidiary of another entity in the Banking Group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total consolidated assets of the group headed by the entity; and

(b) if the entity conducts insurance business and its business does not predominantly consist of insurance business and the entity is not a subsidiary of another entity in the Banking Group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total liabilities relating to the entity's insurance business plus the equity retained by the entity to meet the solvency or financial soundness needs of its insurance business:

In determining the total amount of the Banking Group's insurance business:

(a) all amounts must relate to on balance sheet items only, and must comply with generally accepted accounting practice; and

(b) if products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets must be considered part of the insurance business.

For the purposes of this condition of registration,

'insurance business' means the undertaking or assumption of liability as an insurer under a contract of insurance:

'insurer' and 'contract of insurance' have the same meaning as provided in sections 6 and 7 of the Insurance (Prudential Supervision) Act 2010.

4. That the aggregate credit exposures (of a non-capital nature and net of any allowances for impairment) of the Banking Group to all connected persons do not exceed the rating-contingent limit outlined in the following matrix:

Credit rating[1]	**Connected exposure limit (% of the Banking Group's Tier One Capital)**
AA/Aa2 and above	75
AA-/Aa3	70
A+/A1	60
A/A2	40
A-/A3	30
BBB+/Baa1 and below	15

1 This table uses the rating scales of Standard & Poor's, Fitch Ratings and Moody's Investors Service (Fitch Ratings' scale is identical to Standard & Poor's).

Within the rating-contingent limit, credit exposures (of a non-capital nature and net of any allowances for impairment) to non-bank connected persons shall not exceed 15% of the Banking Group's Tier One Capital.

For the purposes of this condition of registration, compliance with the rating-contingent connected exposure limit is determined in accordance with the Reserve Bank document entitled 'Connected exposures policy' (BS8) dated June 2011.

5. That exposures to connected persons are not on more favourable terms (e.g. as relates to such matters as credit assessment, tenor, interest rates, amortisation schedules and requirement for collateral) than corresponding exposures to non-connected persons.

5A. Before and on 31 March 2012, that the Bank complies with the following corporate governance requirements:

(a) the Board of the Bank must contain at least two independent directors. In this context an independent director is a director who is not an employee of the Bank, and who is not a director, trustee or employee of any holding company of the Bank or any other entity capable of controlling or significantly influencing the Bank;

(b) the chairperson of the Bank's Board must not be an employee of the Bank; and

(c) the Bank's constitution must not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interests of the company (i.e. the Bank).

Conditions of registration (continued)

6. On and after 1 April 2012, that the Bank complies with the following corporate governance requirements:
   (a) the Board of the Bank must have at least five directors;
   (b) the majority of the Board members must be non-executive directors;
   (c) at least half of the Board members must be independent directors;
   (d) an alternate director:
      (i) for a non-executive director must be non-executive; and
      (ii) for an independent director must be independent;
   (e) at least half of the independent directors of the Bank must be ordinarily resident in New Zealand;
   (f) the chairperson of the Board of the Bank must be independent; and
   (g) the Bank's constitution must not include any provision permitting a director, when exercising powers or performing duties as a director, to act other than in what he or she believes is the best interests of the company (i.e. the Bank).

   For the purposes of this condition of registration, 'non-executive' and 'independent' have the same meaning as in the Reserve Bank document entitled 'Corporate Governance' (BS14) dated March 2011.
7. That no appointment of any director, chief executive officer, or executive who reports or is accountable directly to the chief executive officer, is made in respect of the Bank unless:
   (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
   (b) the Reserve Bank has advised that it has no objection to that appointment.
8. On and after 1 April 2012, that a person must not be appointed as chairperson of the Board of the Bank unless:
   (a) the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and
   (b) the Reserve Bank has advised that it has no objection to that appointment.
9. On and after 1 April 2012, that the Bank has a Board audit committee, or other separate board committee covering audit matters, that meets the following requirements:
   (a) the mandate of the committee must include: ensuring the integrity of the Bank's financial controls, reporting systems and internal audit standards;
   (b) the committee must have at least three members;
   (c) every member of the committee must be a non-executive director of the Bank;
   (d) the majority of the members of the committee must be independent; and
   (e) the chairperson of the committee must be independent and must not be the chairperson of the Bank.

   For the purposes of this condition of registration, 'non-executive' and 'independent' have the same meaning as in the Reserve Bank document entitled 'Corporate Governance' (BS14) dated March 2011.
10. That a substantial proportion of the Bank's business is conducted in and from New Zealand.
11. That the Bank has legal and practical ability to control and execute any business, and any functions relating to any business, of the Bank that are carried on by a person other than the Bank, sufficient to achieve, under normal business conditions and in the event of stress or failure of the Bank or of a service provider to the Bank, the following outcomes:
   (a) that the Bank's clearing and settlement obligations due on a day can be met on that day;
   (b) that the Bank's financial risk positions on a day can be identified on that day;
   (c) that the Bank's financial risk positions can be monitored and managed on the day following any failure and on subsequent days; and
   (d) that the Bank's existing customers can be given access to payments facilities on the day following any failure and on subsequent days.

   For the purposes of this condition of registration, the term 'legal and practical ability to control and execute' is explained in the Reserve Bank document entitled 'Outsourcing Policy' (BS11) dated January 2006.
12. That:
   (a) the business and affairs of the Bank are managed by, or under the direction or supervision of, the Board of the Bank;
   (b) the employment contract of the chief executive officer of the Bank or person in an equivalent position (together '**CEO**') is with the Bank, and the terms and conditions of the CEO's employment agreement are determined by, and any decisions relating to the employment or termination of employment of the CEO are made by, the Board of the Bank; and
   (c) all staff employed by the Bank have their remuneration determined by (or under the delegated authority of) the Board or the CEO of the Bank and are accountable (directly or indirectly) to the CEO of the Bank.
13. That, for the purposes of calculating the Bank's capital ratios on a solo basis, a credit conversion factor of zero is only applied to a guarantee of a financing subsidiary's financial obligations if, in substance, the guarantee does not create a risk of loss for the Bank.
14. Subject to condition 14A, that the Banking Group complies with the following quantitative requirements for liquidity-risk management:
   (a) the one-week mismatch ratio of the Banking Group is not less than 0% at the end of each business day;
   (b) the one-month mismatch ratio of the Banking Group is not less than 0% at the end of each business day; and
   (c) the one-year core funding ratio of the Banking Group is not less than 70% at the end of each business day.

   For the purposes of this condition of registration, the ratios identified must be calculated in accordance with the Reserve Bank documents entitled 'Liquidity Policy' (BS13) dated March 2011 and 'Liquidity Policy Annex: Liquid Assets' (BS13A) dated December 2011.

Conditions of registration (continued)

14A. Until the date on which the Bank publishes its disclosure statement for the accounting period ending 31 December 2011, the Bank must use the following substitute definitions to calculate the ratios in condition 14:

'total loans and advances' is the sum of:

(a) the amount of the Banking Group's loans and advances reported in its most recent month-end management accounts; and

(b) the amounts of loans and advances that were transferred to the Banking Group from Westpac Banking Corporation on 1 November 2011, as identified in the most recent month-end management accounts for those entities, except to the extent that this amount is included in the amount in paragraph (a):

'total assets' is the sum of:

(a) the amount of the Banking Group's assets reported in its most recent month-end management accounts; and

(b) the amount of assets that were transferred to the Banking Group from Westpac Banking Corporation on 1 November 2011, as identified in the most recent month-end management accounts for those entities, except to the extent that this amount is included in the amount in paragraph (a):

'Tier One capital' is the sum of:

(a) Tier One capital as defined in BS13; and

(b) The amount of Tier One capital injected into the Banking Group by Westpac New Zealand Group Limited in October 2011, except to the extent that this amount is included in the amount in paragraph (a).

15. That the Bank has an internal framework for liquidity risk management that is adequate in the Bank's view for managing the Bank's liquidity risk at a prudent level, and that, in particular:

(a) is clearly documented and communicated to all those in the organisation with responsibility for managing liquidity and liquidity risk;

(b) identifies responsibility for approval, oversight and implementation of the framework and policies for liquidity risk management;

(c) identifies the principal methods that the Bank will use for measuring, monitoring and controlling liquidity risk; and

(d) considers the material sources of stress that the Bank might face, and prepares the Bank to manage stress through a contingency funding plan.

16. That no more than 10% of total assets may be beneficially owned by a SPV.

For the purposes of this condition:

'total assets' means all assets of the Banking Group plus any assets held by any SPV that are not included in the Banking Group's assets:

'SPV' means a person:

(a) to whom any member of the Banking Group has sold, assigned, or otherwise transferred any asset;

(b) who has granted, or may grant, a security interest in its assets for the benefit of any holder of any covered bond; and

(c) who carries on no other business except for that necessary or incidental to guarantee the obligations of any member of the Banking Group under a covered bond:

'covered bond' means a debt security issued by any member of the Banking Group, for which repayment to holders is guaranteed by a SPV, and investors retain an unsecured claim on the issuer.

17. That:

(a) no member of the Banking Group may give effect to a qualifying acquisition or business combination that meets the notification threshold, and does not meet the non-objection threshold, unless:

(i) the registered bank has notified the Reserve Bank in writing of the intended acquisition or business combination and at least 10 working days have passed; and

(ii) at the time of notifying the Reserve Bank of the intended acquisition or business combination, the registered bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document 'Significant Acquisitions Policy' (BS15) dated December 2011; and

(b) no member of the Banking Group may give effect to a qualifying acquisition or business combination that meets the non-objection threshold unless:

(i) the registered bank has notified the Reserve Bank in writing of the intended acquisition or business combination;

(ii) at the time of notifying the Reserve Bank in writing of the intended acquisition or business combination, the registered bank provided the Reserve Bank with the information required under the Reserve Bank of New Zealand Banking Supervision Handbook document 'Significant Acquisitions Policy' (BS15) dated December 2011; and

(iii) the Reserve Bank has given the registered bank a notice of non-objection to the significant acquisition or business combination.

For the purposes of this condition of registration, 'qualifying acquisition or business combination', 'notification threshold' and 'non-objection threshold' have the same meaning as in the Reserve Bank of New Zealand Banking Supervision Handbook document 'Significant Acquisitions Policy' (BS15) dated December 2011.

This condition of registration applies to acquisitions and business combinations to which a member of the Banking Group intends to give effect on or after 1 April 2012.

In these conditions of registration:

- 'Banking Group' means Westpac New Zealand Limited's financial reporting group as defined in section 2(1) of the Financial Reporting Act 1993; and
- 'generally accepted accounting practice' has the same meaning as in section 2 of the Financial Reporting Act 1993.

Other material matters

There are no matters relating to the business or affairs of the Bank or the Banking Group which are not contained elsewhere in this Disclosure Statement and which would, if disclosed, materially affect the decision of a person to subscribe for debt securities of which the Bank or any member of the Banking Group is the issuer.

Auditors

PricewaterhouseCoopers
PricewaterhouseCoopers Tower
188 Quay Street
Auckland, New Zealand

Review of operations

Disclosure regarding forward-looking statements

This Disclosure Statement contains statements that constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995. Forward-looking statements are statements about matters that are not historical facts. Forward-looking statements appear in a number of places in this Disclosure Statement and include statements regarding the intent, belief or current expectations with respect to the business and operations, market conditions and results of operations and financial condition of the Banking Group including, without limitation, future loan loss provisions and financial support to certain borrowers. Words such as "will", "may", "expect", "intend", "plan", "seek", "would", "should", "could", "continue", "estimate", "anticipate", "believe", "probability", "risk", or other similar words are used to identify forward-looking statements.

These forward-looking statements reflect the Banking Group's current views with respect to certain future events and are subject to change. Certain risks, uncertainties and assumptions are in many instances beyond the Banking Group's control and have been based upon management's expectations and beliefs concerning future developments and their potential effect on the Banking Group. There can be no assurance that future developments will be in accordance with the Banking Group's expectations or that the effect of future developments on the Banking Group will be those anticipated. Actual results could differ materially from those which the Banking Group expects, depending on the outcome of various factors including, but not limited to:

- the effect of, and changes in, laws, regulations, taxation or accounting standards or practices and government policy, particularly changes to liquidity, leverage and capital requirements;
- the stability of New Zealand, Australian and international financial systems and disruptions to financial markets and any losses or business impacts the Banking Group or its customers or counterparties may experience as a result;
- market volatility, including uncertain conditions in funding, equity and asset markets;
- adverse asset, credit or capital market conditions;
- changes to the credit ratings of the Bank or the Ultimate Parent Bank;
- levels of inflation, interest rates, exchange rates and market and monetary fluctuations;
- market liquidity and investor confidence;
- changes in economic conditions, consumer spending, saving and borrowing habits in New Zealand and in other countries in which the Banking Group or its customers or counterparties conduct their operations and the Banking Group's ability to maintain or to increase market share and control expenses;
- the effects of competition in the geographic and business areas in which the Banking Group conducts its operations;
- reliability and security of the Banking Group's technology and risks associated with changes to technology systems;
- the timely development and acceptance of new products and services and the perceived overall value of these products and services by customers;
- the effectiveness of the Banking Group's risk management policies, including its internal processes, systems and employees;
- the occurrence of environmental change or external events in countries in which the Banking Group or its customers or counterparties conduct their operations;
- internal and external events which may adversely impact the Banking Group's reputation;
- changes in political, social or economic conditions in any of the major markets in which the Banking Group or its customers or counterparties operate; and
- various other factors beyond the Banking Group's control.

The above list is not exhaustive. When relying on forward-looking statements to make decisions with respect to the Banking Group, investors and others should carefully consider the foregoing factors and other uncertainties and events.

The Banking Group is under no obligation and does not intend to update any forward-looking statements contained in this Disclosure Statement, whether as a result of new information, future events or otherwise, after the date of this Disclosure Statement.

Information contained in or accessible through the websites mentioned in this Disclosure Statement does not form part of this report unless we specifically state that it is incorporated by reference and forms part of this report. All references in this Disclosure Statement to websites are inactive textual references and are for information only.

Review of operations (continued)

Overview

The Bank is one of New Zealand's largest banking organisations and provides a wide range of consumer, business and institutional banking products and services to consumers, small to medium sized businesses, large corporate and institutional customers and the New Zealand Government.

On 1 November 2011, the NZ Branch transferred additional banking operations to the Bank pursuant to the Westpac New Zealand Act 2011. These activities included:

- institutional customer deposits;
- institutional customer transactional banking;
- institutional customer lending (other than trade finance activities);
- debt capital markets activities carried out in assisting corporate customers to obtain funding, such as loan syndication and securitisation arrangements, but excluding the debt securities team activities, such as arrangement of commercial paper and bond programmes;
- corporate advisory; and
- institutional customer foreign currency accounts.

The results of the transferred additional banking operations were not included in the Bank's financial statements for the financial year ended 30 September 2011. The acquisition involved the transfer to the Bank of approximately \$6.4 billion of assets consisting primarily of loans to corporate customers (\$6.3 billion) and approximately \$5.3 billion of liabilities consisting primarily of deposits (\$5.1 billion), as at 1 November 2011. Approximately 87 full time equivalent employees were transferred from the NZ Branch to the Bank.

Refer to Note 2 Business combination – transfer of operations for further information regarding the transfer.

Presentation of financial information

The financial statements included within this Disclosure Statement have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ('**NZ GAAP**'), as appropriate for profit-oriented entities, and the New Zealand equivalent to International Accounting Standard ('**NZ IAS**') 34 *Interim Financial Reporting* and should be read in conjunction with the Disclosure Statement for the year ended 30 September 2011. These financial statements also comply with International Accounting Standard 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board.

In addition, the financial statements include supplementary information required by the Order.

The financial statements are based on the general principles of historical cost accounting, as modified by the fair value accounting for available-for-sale financial assets, financial assets and financial liabilities at fair value through profit or loss and all derivative contracts. The going concern concept and the accruals basis of accounting have been adopted. All amounts are expressed in New Zealand dollars unless otherwise stated. Except as otherwise expressly indicated, average balance sheet amounts for the six months ended 31 March 2012 and 31 March 2011 are based on daily averages.

Certain comparative information has been restated to ensure consistent treatment with the current reporting period. Where there has been a material restatement of comparative information the nature of, and the reason for, the restatement is disclosed in the relevant note.

Currency of presentation, exchange rates and certain definitions

Items included within the financial statements are measured using the currency of the primary economic environment in which the respective entity operates (the '**functional currency**'). The financial statements are presented in New Zealand dollars, which is the Bank's functional and presentation currency.

Foreign currency monetary assets and liabilities have been translated into New Zealand dollars at the rate of foreign exchange prevailing as at the applicable reporting date. Transactions denominated in a foreign currency are converted to New Zealand dollars at the exchange rates in effect at the date of the transaction.

Foreign exchange differences relating to monetary items and gains and losses arising from foreign exchange dealings by the Banking Group have been included in the income statement, except where deferred in equity as qualifying cash flow hedges.

Critical accounting estimates, judgments and assumptions

The application of the Bank's accounting policies necessarily requires the use of estimates, judgments and assumptions. Should different estimates, judgments or assumptions be applied, the resulting values would change, impacting the net assets and income of the Banking Group. The Bank's Board Audit Committee reviews the accounting policies which are sensitive to the use of estimates, judgments and assumptions as part of its review of the integrity of the financial statements and Disclosure Statements.

The estimates and assumptions used and the value of the resulting asset and liability balances as at 30 September 2011 are described in Note 1 to the Bank's financial statements included in the Disclosure Statement for the year ended 30 September 2011. As at 30 September 2011, the judgments, apart from those involving estimations, that management has made in applying the accounting policies and that have the most significant impact on the amounts recognised in the financial statements are as described in Note 1 to the Bank's financial statements included in the Disclosure Statement for the year ended 30 September 2011.

Selected consolidated financial and operating data

The following selected financial information as at and for the six months ended 31 March 2012 and 31 March 2011, and as at and for the financial year ended 30 September 2011 are derived from the financial statements. This information should be read together with the financial statements.

Review of operations (continued)

Overview of performance – Six months ended 31 March 2012 compared to six months ended 31 March 2011

The financial performance for the six months ended 31 March 2012 was positively impacted by the transfer of additional banking operations to the Bank from the NZ Branch. The transfer of additional banking operations was completed on 1 November 2011, increasing the amount of assets, liabilities and net assets within the Banking Group and making it difficult to compare the results for the six months ended 31 March 2012 with the results for the prior periods. Accordingly, the following discussion and review of the Banking Group operations focuses primarily on the key factors affecting performance in the six months ended 31 March 2012 compared to the six months ended 31 March 2011, excluding the impact of the transfer of additional banking operations on 1 November 2011.

Summary of financial statements

	The Banking Group		
	Six Months Ended 31 March 2012 Unaudited $m	Six Months Ended 31 March 2011 Unaudited $m	Year Ended 30 September 2011 Audited $m
Income statement			
Interest income	**1,911**	1,778	3,521
Interest expense	**(1,189)**	(1,143)	(2,205)
Net interest income	**722**	635	1,316
Non-interest income	**183**	151	308
Net operating income	**905**	786	1,624
Operating expenses	**(401)**	(382)	(771)
Impairment charges on loans	**(100)**	(125)	(224)
Operating profit	**404**	279	629
Share of profit of associate accounted for using equity method	**-**	-	1
Profit before income tax expense	**404**	279	630
Income tax expense	**(113)**	(88)	(197)
Profit after income tax expense	**291**	191	433
Profit after income tax expense attributable to:			
Owners of the Banking Group	**290**	189	429
Non-controlling interests	**1**	2	4
	291	191	433
Dividends paid or provided	**(234)**	(2)	(2)
Balance sheet			
Total assets	**67,885**	57,695	60,656
Total impaired assets (including restructured assets)	**897**	895	794
Total liabilities	**62,134**	53,486	56,160
Total equity	**5,751**	4,209	4,496

Impact of the transferred business activities on the Banking Group

	The Banking Group		
	Pre-existing Operations $m	**Transferred Operations[1] $m**	**Total $m**
For the period ended 31 March 2012 (unaudited)			
Interest income	**1,686**	**225**	**1,911**
Interest expense	**(1,026)**	**(163)**	**(1,189)**
Net interest income	**660**	**62**	**722**
Non-interest income	**168**	**15**	**183**
Net operating income	**828**	**77**	**905**
Operating expenses	**(394)**	**(7)**	**(401)**
Impairment charges on loans	**(98)**	**(2)**	**(100)**
Profit before income tax expense	**336**	**68**	**404**
Income tax expense	**(93)**	**(20)**	**(113)**
Profit after income tax expense	**243**	**48**	**291**
Profit after income tax expense attributable to:			
Owners of the Banking Group	**242**	**48**	**290**
Non-controlling interests	**1**	**-**	**1**
	243	**48**	**291**

1 Represents the five month result of the transferred banking operations since the acquisition date on 1 November 2011, as included in the Banking Group's consolidated income statement.

Review of operations (continued)

Profit after income tax expense attributable to owners of the Banking Group increased by $101 million or 53% to $290 million for the six months ended 31 March 2012, compared to $189 million for the six months ended 31 March 2011.

Excluding the impact of the transfer of additional banking operations, profit after income tax expense attributable to owners of the Banking Group was $242 million for the six months ended 31 March 2012, an increase of $53 million or 28% compared to the six months ended 31 March 2011. This increase was primarily a result of an increase in net interest income of $25 million and a continued decline in impairment charges on loans, which decreased $27 million.

A subdued New Zealand economic recovery has continued in the first half of the 2012 financial year, as the agricultural sector enjoyed favourable growing conditions, Christchurch reconstruction got under way following the earthquakes, and the housing market started to improve. The levels of housing delinquencies and other impaired assets stabilised, easing pressure on financial institutions. Borrowing growth remained low and subdued, as households and businesses continued to focus on paying down debt. Unemployment has remained at around 6.7% for more than two years and the labour market remains soft.

The Banking Group's financial performance for the six months ended 31 March 2012 reflected continued momentum in the business achieved through ongoing investment in the Bank together with the implementation of further productivity and efficiency improvements. The Banking Group's balance sheet continued to grow with customer deposits more than funding lending growth. This, together with effective margin management, led to the increase in net interest income. The decline in impairment charges on loans was due to improvements in credit decisioning processes together with an improvement in the New Zealand economy.

- Net interest income increased $87 million or 14% to $722 million for the six months ended 31 March 2012, compared to $635 million for the six months ended 31 March 2011. The increase in net interest income was primarily attributable to increased lending volumes as a result of the transfer of additional banking operations. Continued repricing of housing and business loans and increased term deposit margins also contributed to the increase in net interest income. Excluding the impact of the transfer of additional banking operations, net interest income increased $25 million or 4% to $660 million for the six months ended 31 March 2012 compared to the six months ended 31 March 2011.
- Non-interest income increased $32 million or 21% to $183 million for the six months ended 31 March 2012, compared to $151 million for the six months ended 31 March 2011. Non-interest income excluding the impact of the transfer of additional banking operations increased $17 million or 11% to $168 million for the six months ended 31 March 2012 compared to $151 million for the six months ended 31 March 2011. This increase was primarily due to an increase in other non-interest income of $12 million, mainly in relation to insurance recoveries.
- Operating expenses increased $19 million or 5% to $401 million for the six months ended 31 March 2012, compared to $382 million for the six months ended 31 March 2011. Excluding the impact of the transfer of additional banking operations, operating expenses increased $12 million or 3% to $394 million. Although ongoing productivity initiatives resulted in savings through reduced average full-time equivalent employees, this was more than offset by an increased investment in the business, an inflationary increase in salaries and an increase in occupancy costs following the move into a new head office building.
- Impairment charges on loans decreased $25 million or 20% to $100 million for the six months ended 31 March 2012, compared to $125 million for the six months ended 31 March 2011. Impairment charges on loans excluding the impact of the transfer of additional banking operations decreased $27 million or 22% to $98 million for the six months ended 31 March 2012 compared to the six months ended 31 March 2011. This decrease reflects the continued improvement in asset quality of the overall portfolio due to improvements in credit decisioning processes and the subdued economic recovery which has continued in the 2012 financial year.
- Total assets as at 31 March 2012 increased $7.2 billion or 12% to $67.9 billion from $60.7 billion as at 30 September 2011, primarily due to the impact of the transfer of additional banking operations. Loans increased $7.0 billion, primarily due to gross institutional customer lending of $6.3 billion as at 31 March 2012, which decreased $99 million against transferred balances of $6.4 billion. Excluding the impact of the transfer of additional banking operations, total assets increased $603 million or 1% to $61.3 billion. Increases in available-for-sale securities and loans of $1.1 billion and $720 million, respectively, were partially offset by decreases in other liquid asset holdings, including amounts due from other financial institutions and trading securities, down $540 million and $276 million, respectively.
- Total liabilities increased $6.0 billion or 11% to $62.1 billion as at 31 March 2012 from $56.2 billion as at 30 September 2011, primarily due to the impact of the transfer of additional banking operations and additional related entity borrowings of $3.1 billion, which was drawn to fund both the purchase of the assets and liabilities relating to the business activities transferred from the NZ Branch and the additional liquid assets required to be held by the Banking Group as a result of the transfer. Institutional customer deposits as at 31 March 2012 increased $463 million to $5.5 billion against transferred balances of $5.1 billion. Excluding the impact of the transfer of additional banking operations and amounts due to related entities, total liabilities decreased $2.9 billion or 5% to $50.5 billion as at 31 March 2012. Decreases in debt issues and certificates of deposit of $3.2 billion and $144 million, respectively, were partially offset by an increase in customer deposits (deposits at amortised cost) of $571 million.
- Total equity as at 31 March 2012 increased $1.3 billion to $5.8 billion, from $4.5 billion as at 30 September 2011. This was primarily due to an issuance of share capital of $1.1 billion to WNZGL (refer to Note 2 for further details), partially offset by a dividend to WNZGL of $230 million, together with increases in the available-for-sale securities reserve and the cash flow hedge reserve of $40 million and $28 million, respectively. Profit after income tax expense attributable to owners of the Banking Group of $290 million for the six months ended 31 March 2012, as reflected in retained profits, was partially offset by the aforementioned dividend to WNZGL.

Review of operations (continued)

Income statement review – Six months ended 31 March 2012 compared to six months ended 31 March 2011

Net interest income

	The Banking Group	
	Six Months Ended 31 March 2012 Unaudited $m	Six Months Ended 31 March 2011 Unaudited $m
Interest income	**1,911**	1,778
Interest expense	**(1,189)**	(1,143)
Net interest income	**722**	635
Increase/(decrease) in net interest income[1]:		
Due to change in volume	**165**	(44)
Due to change in rate	**(53)**	(26)
Other movements[2]	**(25)**	136
Change in net interest income	**87**	66

1 Changes in net interest income due to volume and rate have been calculated on the movement in average balances and the change in the interest rates on average interest earning assets and average interest bearing liabilities. Changes due to both volume and rate have been allocated in proportion to the relationship of the absolute dollar amount of each change to the total.

2 Other movements include the net impact of Treasury balance sheet management activities and the change in net interest income on amounts due to related entities, which cannot be practically allocated between changes due to volume or rate.

Six months ended 31 March 2012 compared to six months ended 31 March 2011

Net interest income increased $87 million or 14% to $722 million for the six months ended 31 March 2012, compared to $635 million for the six months ended 31 March 2011. The increase in net interest income was primarily attributable to increased lending volumes as a result of the transfer of additional banking operations together with continued repricing of housing and business loans and increased term deposit margins.

Excluding the impact of the transfer of additional banking operations, net interest income increased $25 million or 4% to $660 million for the six months ended 31 March 2012 compared to the six months ended 31 March 2011. This increase reflected reductions in interest income of $92 million and interest expense of $117 million.

- The decrease in interest income was primarily due to a $148 million decrease in interest income received on loans partially offset by a $49 million increase in interest income earned on government and supranational bonds categorised as available-for-sale securities. The decrease in interest income on loans was due to a lower average interest rate on loans (annualised), which decreased to 6.35% compared to 6.88% for the six months ended 31 March 2011. Excluding the impact of the transfer of additional banking operations, gross lending grew at 1.4% for the six months ended 31 March 2012.
- The decrease in interest expense was primarily due to a reduction in the amount of interest paid on deposits of $138 million. This reduction was partially offset by the impact of Treasury balance sheet management activities. Excluding the impact of the transfer of additional banking operations, overall customer deposits grew at 1.7% over the six months ended 31 March 2012.

Net interest income of the additional banking operations contributed $62 million for the six months ended 31 March 2012.

Interest spread and margin

	The Banking Group	
	Six Months Ended 31 March 2012 Unaudited $m	Six Months Ended 31 March 2011 Unaudited $m
Net interest income	**722**	635
Average interest earning assets	**63,931**	53,936
Average interest bearing liabilities	**55,097**	46,457
Average net non-interest bearing liabilities and equity	**8,834**	7,479
Interest spread[1] (%)	**1.67**	1.68
Benefit of net non-interest bearing liabilities and equity[2] (%)	**0.59**	0.68
Net interest margin[3] (%)	**2.26**	2.36

1 Interest spread (annualised) is the difference between the average yield on all interest earning assets and the average rate paid on all interest bearing liabilities.

2 The benefit of net non-interest bearing liabilities and equity (annualised) is determined by applying the average rate of interest paid on all interest bearing liabilities to the average level of net non-interest bearing funds (i.e. average non-interest bearing liabilities plus average equity less average non-interest earning assets) as a percentage of average interest earning assets.

3 Net interest margin is calculated by dividing net interest income (annualised) by average interest earning assets.

Six months ended 31 March 2012 compared to six months ended 31 March 2011

Net interest margin decreased 10 basis points to 2.26% for the six months ended 31 March 2012, compared to 2.36% for six months ended 31 March 2011. Net interest margin for the six months ended 31 March 2012 was negatively affected by the impact of Treasury balance sheet management activities and interest expense on additional related entity borrowings. These were partly offset by lower holdings of debt issues and improved net interest margin for both consumer and business banking segments.

Review of operations (continued)

Non-interest income

	The Banking Group	
	Six Months Ended 31 March 2012 Unaudited $m	Six Months Ended 31 March 2011 Unaudited $m
Fees and commissions	**168**	147
Gains on ineffective hedges	**-**	1
Other non-interest income	**15**	3
Total non-interest income	**183**	151

Six months ended 31 March 2012 compared to six months ended 31 March 2011

Non-interest income increased $32 million or 21% to $183 million for the six months ended 31 March 2012, compared to $151 million for the six months ended 31 March 2011. Non-interest income excluding the impact of the transfer of additional banking operations increased $17 million or 11% to $168 million for the six months ended 31 March 2012 compared to $151 million for the six months ended 31 March 2011. This increase was primarily due to an increase in other non-interest income of $12 million, mainly in relation to insurance recoveries.

Operating expenses

	The Banking Group	
	Six Months Ended 31 March 2012 Unaudited $m	Six Months Ended 31 March 2011 Unaudited $m
Salaries and other staff expenses	**204**	194
Equipment and occupancy expenses	**53**	48
Other expenses	**144**	140
Total operating expenses	**401**	382

Six months ended 31 March 2012 compared to six months ended 31 March 2011

Operating expenses increased $19 million or 5% to $401 million for the six months ended 31 March 2012, compared to $382 million for the six months ended 31 March 2011. Operating expenses excluding the impact of the transfer of additional banking operations increased $12 million or 3% to $394 million for the six months ended 31 March 2012 compared to $382 million for the six months ended 31 March 2011.

- Salaries and other staff expenses increased by $4 million or 2%. Although ongoing productivity initiatives resulted in savings through reduced average full-time equivalent employees, this was more than offset by an inflationary increase in salaries.
- Equipment and occupancy expenses increased by $5 million or 10%, following the move into a new head office building.
- Other expenses increased $3 million or 2%, reflecting the increased investment in the business, in particular innovative technology to improve customer experience.

Impairment charges

	The Banking Group	
	Six Months Ended 31 March 2012 Unaudited $m	Six Months Ended 31 March 2011 Unaudited $m
Impairment charges on loans	**100**	125
Impairment charges to average gross loans (%)[1]	**0.35**	0.49

1 Impairment charges on loans have been annualised in this calculation

Six months ended 31 March 2012 compared to six months ended 31 March 2011

Impairment charges on loans decreased $25 million or 20% to $100 million for the six months ended 31 March 2012, compared to $125 million for the six months ended 31 March 2011. Impairment charges on loans excluding the impact of the transfer of additional banking operations decreased $27 million or 22% to $98 million for the six months ended 31 March 2012 compared to $125 million for the six months ended 31 March 2011. This decrease reflects the continued improvement in asset quality of the overall portfolio due to improvements in credit decisioning processes and the subdued economic recovery which has continued in the 2012 financial year.

The impairment charges on loans to average gross loans ratio decreased by 0.14% to 0.35% as at 31 March 2012, compared to 0.49% as at 31 March 2011. This decrease was due to both the $25 million reduction in impairment charges on loans and the increase in average gross loans, which grew 12% for the six months ended 31 March 2012, following the transfer of additional banking operations.

Review of operations (continued)

Income tax expense

	The Banking Group	
	Six Months Ended 31 March 2012 Unaudited $m	Six Months Ended 31 March 2011 Unaudited $m
Income tax expense	**113**	88
Income tax expense as a percentage of profit before income tax expense (%)	**28.0**	31.5

Six months ended 31 March 2012 compared to six months ended 31 March 2011

Income tax expense increased $25 million or 28% to $113 million for the six months ended 31 March 2012, compared to $88 million for the six months ended 31 March 2011. Income tax expense excluding the impact of the transfer of additional banking operations increased $5 million or 6% to $93 million for the six months ended 31 March 2012 compared to the six months ended 31 March 2011. This increase was primarily driven by an increase in taxable income. The effective tax rate for the six months ended 31 March 2012 was 28.0%, which is in line with the New Zealand corporate tax rate. The effective tax rate for the six months ended 31 March 2011 of 31.5% was impacted by the one-off remeasurement of deferred tax balances due to a change in the corporate tax rate from 30.0% which was enacted by the New Zealand Government in May 2010.

Balance sheet review

	The Banking Group		
Consolidated Balance Sheet	**31 March 2012 Unaudited $m**	31 March 2011 Unaudited $m	30 September 2011 Audited $m
Assets			
Cash and balances with central banks	**1,154**	550	1,215
Due from other financial institutions	**159**	3	699
Derivative financial instruments	**11**	27	85
Trading securities	**2,985**	3,594	3,261
Available-for-sale securities	**2,583**	576	1,518
Loans	**58,204**	49,974	51,250
Due from related entities	**1,580**	1,800	1,517
Current tax assets	**-**	6	-
Investment in associate	**48**	48	48
Goodwill and other intangible assets	**578**	558	567
Property, plant and equipment	**154**	142	154
Deferred tax assets	**219**	277	194
Other assets	**210**	140	148
Total assets	**67,885**	57,695	60,656
Liabilities			
Due to other financial institutions	**3**	-	100
Deposits	**40,836**	33,169	34,886
Derivative financial instruments	**167**	7	84
Debt issues	**14,382**	17,066	17,630
Current tax liabilities	**35**	-	45
Provisions	**75**	62	70
Other liabilities	**545**	629	569
Total liabilities excluding perpetual subordinated notes and due to related entities	**56,043**	50,933	53,384
Perpetual subordinated notes	**970**	970	970
Due to related entities	**5,121**	1,583	1,806
Total related entities liabilities	**6,091**	2,553	2,776
Total liabilities	**62,134**	53,486	56,160
Net assets	**5,751**	4,209	4,496
Equity			
Share capital	**4,600**	3,470	3,470
Retained profits	**1,027**	737	967
Available-for-sale securities reserve	**71**	24	31
Cash flow hedge reserve	**48**	(28)	20
Total equity attributable to owners of the Banking Group	**5,746**	4,203	4,488
Non-controlling interests	**5**	6	8
Total equity	**5,751**	4,209	4,496

Assets – 31 March 2012 compared to 30 September 2011

Total assets as at 31 March 2012 increased $7.2 billion or 12% to $67.9 billion from $60.7 billion as at 30 September 2011, primarily due to the impact of the transfer of additional banking operations. Loans increased $7.0 billion, primarily due to gross institutional customer lending of $6.3 billion as at 31 March 2012, which decreased $99 million against transferred balances of $6.4 billion.

Review of operations (continued)

Excluding the impact of the transfer of additional banking operations, total assets increased $603 million or 1% to $61.3 billion. Increases in available-for-sale securities and loans of $1.1 billion and $720 million, respectively, were partially offset by decreases in other liquid asset holdings, including amounts due from other financial institutions and trading securities.

- Gross lending grew at 1.4% for the six months ended 31 March 2012.
- Available-for-sale securities increased $1.1 billion to $2.6 billion, following the purchase of New Zealand Government bonds and supranational securities, held as part of a strategic liquidity portfolio.
- Amounts due from related entities decreased $270 million to $1.2 billion. In addition, other liquid asset holdings, including amounts due from other financial institutions and trading securities, decreased $540 million and $276 million, respectively. Reductions in these assets partially funded the purchase of longer-dated available-for-sale securities.

Liabilities and equity – 31 March 2012 compared to 30 September 2011

Total liabilities increased $6.0 billion or 11% to $62.1 billion as at 31 March 2012 from $56.2 billion as at 30 September 2011, primarily due to the impact of the transfer of additional banking operations and additional related entity borrowings. Amounts due to related entities increased $3.3 billion or 183% to $5.1 billion as at 31 March 2012 from $1.8 billion as at 30 September 2011, to fund both the purchase of the assets and liabilities relating to the business activities transferred from the NZ Branch and the additional liquid assets required to be held by the Banking Group as a result of the transfer.

Deposits as at 31 March 2012 increased $6.0 billion, where deposits at amortised cost (customer deposits, both at call and term) increased $6.1 billion, partially offset by a reduction in deposits at fair value (significantly comprising certificates of deposit) of $144 million. Institutional customer deposits as at 31 March 2012 increased $463 million to $5.5 billion against transferred balances of $5.1 billion.

Excluding the impact of the transfer of additional banking operations and amounts due to related entities, total liabilities decreased $2.9 billion or 5% to $50.5 billion as at 31 March 2012. Decreases in debt issues and certificates of deposit of $3.2 billion and $144 million, respectively, were partially offset by an increase in customer deposits (deposits at amortised cost) of $571 million.

- Debt issues decreased $3.2 billion or 18% to $14.4 billion as at 31 March 2012 from $17.6 billion as at 30 September 2011. This decrease was due to a $2.4 billion net debt repayment and $0.8 billion reduction in debt due to fair value and foreign exchange revaluations.
- Overall customer deposits grew at 1.7% for the six months ended 31 March 2012. Term deposits continued to be the preferred deposit product in the low interest rate environment making up 53% of customer deposits.

Total equity as at 31 March 2012 increased $1.3 billion to $5.8 billion, from $4.5 billion as at 30 September 2011. This was primarily due to an issuance of share capital of $1.1 billion to WNZGL (refer to Note 2 for further details), partially offset by a dividend to WNZGL of $230 million, together with increases in the available-for-sale securities reserve and the cash flow hedge reserve of $40 million and $28 million, respectively. Profit after income tax expense attributable to owners of the Banking Group of $290 million for the six months ended 31 March 2012, as reflected in retained profits, was partially offset by the aforementioned dividend to WNZGL.

Asset quality

	The Banking Group		
	31 March 2012 Unaudited $m	31 March 2011 Unaudited $m	30 September 2011 Audited $m
Impaired assets			
Individually impaired assets:			
Gross	**897**	895	793
Impairment provisions	**(283)**	(390)	(224)
Net	**614**	505	569
Restructured assets:			
Gross	**-**	-	1
Impairment provisions	**-**	-	-
Net	**-**	-	1
Past due assets 90+ days:[1]			
Gross	**226**	264	256
Impairment provisions	**(27)**	(32)	(29)
Net	**199**	232	227
Net impaired assets	**813**	737	797
Provisions for impairment charges and credit commitments			
Individually assessed provisions	**283**	390	224
Collectively assessed provisions	**436**	401	375
Total provisions for impairment charges and credit commitments	**719**	791	599
Less: provision for credit commitments	**(39)**	(26)	(26)
Total provisions for impairment charges	**680**	765	573
Asset quality			
Total impairment provisions to total impaired assets[1] (%)	**27.6**	36.4	24.1
Total impaired assets to gross loans[1] (%)	**1.91**	2.28	2.03
Total provisions for impairment charges to gross loans (%)	**1.15**	1.51	1.11
Total provisions for impairment charges to total impaired assets[1] (%)	**60.6**	66.0	54.6
Collectively assessed provisions to non-housing non-performing loans (%)	**50.6**	50.9	49.4

1 Past due assets 90+ days with collectively assessed impairment provisions held against them are classified as impaired assets for US Securities and Exchange Commission ('**US SEC**') reporting purposes. Under New Zealand Equivalents to International Financial Reporting Standards ('**NZ IFRS**'), these assets are not included within impaired assets and the corresponding impairment provision on these assets is included within the collectively assessed provisions.

Review of operations (continued)

31 March 2012 compared to 30 September 2011

As at 31 March 2012 total impaired assets as a percentage of gross loans was 1.91%, a decrease of 0.12% from 2.03% as at 30 September 2011. This decrease reflects the write-off of impaired loans and a continued improvement in the asset quality of the overall portfolio due to improvements in credit decisioning processes and the subdued economic recovery which has continued in the 2012 financial year. The increase in the gross loan book has also contributed to the reduction in the ratio.

Total impairment provisions to total impaired assets coverage was 27.6% as at 31 March 2012 which was an increase from 24.1% as at 30 September 2011. This increase was primarily driven by an increase in individually assessed provisions on transferred institutional lending. Total provisions for impairment charges to gross loans was 1.15% as at 31 March 2012, an increase from 1.11% as at 30 September 2011, reflecting the increase in individually assessed provisions held. Potential problem loans, being those loans considered substandard but not yet impaired, were $536 million as at 31 March 2012, representing a net increase of $126 million from 30 September 2011. The increase was primarily due to the inclusion of one transferred institutional exposure of $76 million and one manufacturing exposure of $46 million which moved into this category in the period. Loans are considered potentially problematic where facilities are fully current as to interest and principal obligations; however, the customer demonstrates significant weakness in debt service or security coverage that jeopardises repayment of the debt within its current contractual terms. In the event these weaknesses are not rectified, possible loss of principal or interest could occur.

Directors' statement

Each Director of the Bank believes, after due enquiry, that, as at the date on which this Disclosure Statement is signed, the Disclosure Statement:

(a) contains all information that is required by the Order; and

(b) is not false or misleading.

Each Director of the Bank believes, after due enquiry, that, over the six months ended 31 March 2012:

(a) the Bank has complied with the conditions of registration imposed on it pursuant to section 74 of the Reserve Bank Act;

(b) credit exposures to connected persons were not contrary to the interests of the Banking Group; and

(c) the Bank had systems in place to monitor and control adequately the Banking Group's material risks, including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, operational risk and other business risks, and that those systems were being properly applied.

This Disclosure Statement has been signed by all the Directors:

Peter David Wilson

Peter Graham Clare

Philip Matthew Coffey

Janice Amelia Dawson

Christopher John David Moller

Ralph Graham Waters

Dated this 30th day of May 2012

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Consolidated income statement for the six months ended 31 March 2012

	Note	The Banking Group Six Months Ended 31 March 2012 Unaudited $m	Six Months Ended 31 March 2011 Unaudited $m	Year Ended 30 September 2011 Audited $m
Interest income		**1,911**	1,778	3,521
Interest expense		**(1,189)**	(1,143)	(2,205)
Net interest income		**722**	635	1,316
Non-interest income:				
Fees and commissions	3	**168**	147	299
Gains on ineffective hedges	3	**-**	1	1
Other non-interest income	3	**15**	3	8
Total non-interest income		**183**	151	308
Net operating income		**905**	786	1,624
Operating expenses		**(401)**	(382)	(771)
Impairment charges on loans	4	**(100)**	(125)	(224)
Operating profit		**404**	279	629
Share of profit of associate accounted for using the equity method		**-**	-	1
Profit before income tax expense		**404**	279	630
Income tax expense		**(113)**	(88)	(197)
Profit after income tax expense		**291**	191	433
Profit after income tax expense attributable to:				
Owners of the Banking Group		**290**	189	429
Non-controlling interests		**1**	2	4
		291	191	433

The accompanying notes (numbered 1 to 19) form part of, and should be read in conjunction with, these financial statements.

Consolidated statement of comprehensive income for the six months ended 31 March 2012

	The Banking Group		
	Six Months Ended 31 March 2012 Unaudited $m	Six Months Ended 31 March 2011 Unaudited $m	Year Ended 30 September 2011 Audited $m
Profit after income tax expense	**291**	191	433
Other comprehensive income:			
Net unrealised gains/(losses) from changes in fair value of available-for-sale securities	**50**	(1)	6
Cash flow hedges:			
Net gains/(losses) from changes in fair value of cash flow hedges	**33**	(42)	18
Transferred to the income statement	**6**	3	11
Actuarial losses on employee defined benefit superannuation schemes	**-**	-	(15)
Income tax relating to components of other comprehensive income[1]	**(21)**	12	(3)
Other comprehensive income/(expense), net of tax	**68**	(28)	17
Total comprehensive income	**359**	163	450
Total comprehensive income attributable to:			
Owners of the Banking Group	**358**	161	446
Non-controlling interests	**1**	2	4
	359	163	450

1 The income tax effects relating to each component of other comprehensive income are disclosed in the following table.

Tax effects relating to each component of other comprehensive income

	The Banking Group		
	Before Tax Amount $m	**Tax Benefit/ (Expense) $m**	**Net of Tax Amount $m**
For the six months ended 31 March 2012 (Unaudited)			
Net unrealised gains from changes in fair value of available-for-sale securities	**50**	**(10)**	**40**
Cash flow hedges:			
Net gains from changes in fair value of cash flow hedges	**33**	**(9)**	**24**
Transferred to the income statement	**6**	**(2)**	**4**
Other comprehensive income	**89**	**(21)**	**68**
For the six months ended 31 March 2011 (Unaudited)			
Net unrealised losses from changes in fair value of available-for-sale securities	(1)	-	(1)
Cash flow hedges:			
Net losses from changes in fair value of cash flow hedges	(42)	13	(29)
Transferred to the income statement	3	(1)	2
Other comprehensive expense	(40)	12	(28)
For the year ended 30 September 2011 (Audited)			
Net unrealised gains from changes in fair value of available-for-sale securities	6	-	6
Cash flow hedges:			
Net gains from changes in fair value of cash flow hedges	18	(5)	13
Transferred to the income statement	11	(3)	8
Actuarial losses on employee defined benefit superannuation schemes	(15)	5	(10)
Other comprehensive income	20	(3)	17

The accompanying notes (numbered 1 to 19) form part of, and should be read in conjunction with, these financial statements.

Consolidated statement of changes in equity for the six months ended 31 March 2012

	The Banking Group						
	Share Capital $m	**Retained Profits $m**	**Available-for-sale Securities Reserve $m**	**Cash Flow Hedge Reserve $m**	**Total before Non-controlling Interests $m**	**Non-controlling Interests $m**	**Total $m**
As at 1 October 2010	3,470	548	25	(1)	4,042	6	4,048
Six months ended 31 March 2011							
Profit after income tax expense	-	189	-	-	189	2	191
Other comprehensive expense	-	-	(1)	(27)	(28)	-	(28)
Total comprehensive income/(expense) for the six months ended 31 March 2011	-	189	(1)	(27)	161	2	163
Transaction with owners:							
Dividends paid on ordinary shares	-	-	-	-	-	(2)	(2)
As at 31 March 2011 (Unaudited)	3,470	737	24	(28)	4,203	6	4,209
Year ended 30 September 2011							
Profit after income tax expense	-	429	-	-	429	4	433
Other comprehensive (expense)/income	-	(10)	6	21	17	-	17
Total comprehensive income for the year ended 30 September 2011	-	419	6	21	446	4	450
Transaction with owners:							
Dividends paid on ordinary shares	-	-	-	-	-	(2)	(2)
As at 30 September 2011 (Audited)	3,470	967	31	20	4,488	8	4,496
Six months ended 31 March 2012							
Profit after income tax expense	**-**	**290**	**-**	**-**	**290**	**1**	**291**
Other comprehensive income	**-**	**-**	**40**	**28**	**68**	**-**	**68**
Total comprehensive income for the six months ended 31 March 2012	**-**	**290**	**40**	**28**	**358**	**1**	**359**
Transactions with owners:							
Share capital issued	**1,130**	**-**	**-**	**-**	**1,130**	**-**	**1,130**
Dividends paid on ordinary shares	**-**	**(230)**	**-**	**-**	**(230)**	**(4)**	**(234)**
As at 31 March 2012 (Unaudited)	**4,600**	**1,027**	**71**	**48**	**5,746**	**5**	**5,751**

The accompanying notes (numbered 1 to 19) form part of, and should be read in conjunction with, these financial statements.

Consolidated balance sheet as at 31 March 2012

	Note	The Banking Group 31 March 2012 Unaudited $m	31 March 2011 Unaudited $m	30 September 2011 Audited $m
Assets				
Cash and balances with central banks		**1,154**	550	1,215
Due from other financial institutions		**159**	3	699
Derivative financial instruments		**11**	27	85
Trading securities	5	**2,985**	3,594	3,261
Available-for-sale securities		**2,583**	576	1,518
Loans	6, 7	**58,204**	49,974	51,250
Due from related entities		**1,580**	1,800	1,517
Current tax assets		**-**	6	-
Investment in associate		**48**	48	48
Goodwill and other intangible assets		**578**	558	567
Property, plant and equipment		**154**	142	154
Deferred tax assets		**219**	277	194
Other assets		**210**	140	148
Total assets		**67,885**	57,695	60,656
Liabilities				
Due to other financial institutions		**3**	-	100
Deposits	8	**40,836**	33,169	34,886
Derivative financial instruments		**167**	7	84
Debt issues	9	**14,382**	17,066	17,630
Current tax liabilities		**35**	-	45
Provisions		**75**	62	70
Other liabilities		**545**	629	569
Total liabilities excluding perpetual subordinated notes and due to related entities		**56,043**	50,933	53,384
Perpetual subordinated notes		**970**	970	970
Due to related entities		**5,121**	1,583	1,806
Total related entities liabilities		**6,091**	2,553	2,776
Total liabilities		**62,134**	53,486	56,160
Net assets		**5,751**	4,209	4,496
Equity				
Share capital		**4,600**	3,470	3,470
Retained profits		**1,027**	737	967
Available-for-sale securities reserve		**71**	24	31
Cash flow hedge reserve		**48**	(28)	20
Total equity attributable to owners of the Banking Group		**5,746**	4,203	4,488
Non-controlling interests		**5**	6	8
Total equity		**5,751**	4,209	4,496
Interest earning and discount bearing assets		**67,080**	57,069	59,737
Interest and discount bearing liabilities		**56,965**	48,839	52,060

The accompanying notes (numbered 1 to 19) form part of, and should be read in conjunction with, these financial statements.

Consolidated statement of cash flows for the six months ended 31 March 2012

	The Banking Group		
	Six Months Ended 31 March 2012 Unaudited $m	Six Months Ended 31 March 2011 Unaudited $m	Year Ended 30 September 2011 Audited $m
Cash flows from operating activities			
Interest income received	**1,899**	1,781	3,527
Interest expense paid	**(1,224)**	(1,167)	(2,205)
Non-interest income received	**155**	149	306
Net decrease/(increase) in trading securities	**2,233**	(1,007)	(674)
Net movement in derivative financial instruments	**169**	(3)	16
Operating expenses paid	**(380)**	(332)	(682)
Income tax paid	**(141)**	(117)	(151)
Net cash provided by/(used in) operating activities	**2,711**	(696)	137
Cash flows from investing activities			
Net increase in available-for-sale securities	**(1,015)**	(432)	(1,468)
Net loans advanced to customers	**(718)**	(65)	(1,440)
Net increase in due from related entities	**(63)**	(970)	(687)
Purchase of capitalised computer software	**(27)**	(14)	(44)
Purchase of property, plant and equipment	**(13)**	(28)	(55)
Net cash acquired from the transfer of additional banking operations	**(154)**	-	-
Net cash used in investing activities	**(1,990)**	(1,509)	(3,694)
Cash flows from financing activities			
Issue of ordinary share capital	**1,130**	-	-
Net increase in deposits	**890**	703	2,420
Net (decrease)/increase in debt issues	**(3,248)**	1,627	2,191
Net increase/(decrease) in due to related entities	**237**	(95)	237
Payment of dividends	**(234)**	(2)	(2)
Net cash (used in)/provided by financing activities	**(1,225)**	2,233	4,846
Net (decrease)/increase in cash and cash equivalents	**(504)**	28	1,289
Cash and cash equivalents at beginning of the period/year	**1,814**	525	525
Cash and cash equivalents at end of the period/year	**1,310**	553	1,814
Cash and cash equivalents comprise:			
Cash and balances with central banks	**1,154**	550	1,215
Due from other financial institutions (net)	**156**	3	599
	1,310	553	1,814
Reconciliation of profit after income tax expense to net cash provided by/(used in) operating activities			
Profit after income tax expense	**291**	191	433
Adjustments:			
Impairment charges on loans	**100**	125	224
Computer software amortisation costs	**18**	23	42
Depreciation on property, plant and equipment	**13**	12	22
Gain on disposal of property, plant and equipment	**-**	-	(7)
Loss on disposal of computer software	**-**	1	2
Share-based payments	**3**	12	15
Movement in other assets	**(40)**	3	8
Movement in other liabilities	**(48)**	(24)	15
Movement in current and deferred tax	**(35)**	(41)	94
Tax losses transferred from/(to) related entities	**28**	-	(45)
Tax on cash flow hedge reserve	**(11)**	12	(8)
Tax on available-for-sale reserve	**(10)**	-	-
Movement in trading securities	**2,233**	(1,007)	(674)
Movement in derivative financial instruments	**169**	(3)	16
Net cash provided by/(used in) operating activities	**2,711**	(696)	137

The accompanying notes (numbered 1 to 19) form part of, and should be read in conjunction with, these financial statements.

Notes to the financial statements

Note 1 Statement of accounting policies

Statutory base

These consolidated financial statements have been prepared and presented in accordance with the Order and the Reserve Bank Act.

These financial statements have also been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ('**NZ GAAP**'), as appropriate for profit-oriented entities, and the New Zealand Equivalent to International Accounting Standard ('**NZ IAS**') 34 *Interim Financial Reporting* and should be read in conjunction with the Disclosure Statement for the year ended 30 September 2011.

These financial statements comply with International Accounting Standard 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board.

As a result of the new and revised accounting standards which became operative for the annual reporting period commencing 1 October 2011, the following standards, interpretations and amendments have been adopted with effect from 1 October 2011:

- NZ IFRS 7 *Financial Instruments: Disclosures* ('**NZ IFRS 7**'):
  - The amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments. In addition, certain disclosure requirements have been amended or removed.
  - *Amendments to NZ IFRS 7 Disclosures – Transfers of Financial Assets* – The amendments require additional disclosures about the transfer of financial assets, including in respect of the nature of the financial assets involved and the risks associated with them.
- NZ IAS 1 *Presentation of Financial Statements* – The amendments clarify that an analysis of other comprehensive income by item is required to be disclosed either in the statement of changes in equity or in the notes to the financial statements.
- NZ IAS 24 *Related Party Disclosures* – The main changes to the standard simplify the definition of a related party and clarify its intended meaning.
- NZ IAS 34 *Interim Financial Reporting* – The amendments add examples to the list of significant events or transactions that require disclosure under NZ IAS 34.
- New Zealand Equivalent to International Financial Reporting Interpretations Committee ('**NZ IFRIC**') 13 *Customer Loyalty Programmes* – The amendments clarify the fair value of award credits and take into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits.
- NZ IFRIC 14 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* – The amendments remove the unintended consequence arising from the treatment of prepayments when there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense.
- *Amendments to NZ IFRS 7: Disclosure Amendments to Appendix E New Zealand-specific additional disclosure requirements applicable to financial institutions* – The amendments replace the term 'financial institutions' with the term 'deposit takers'. The amendments also remove registered banks from its scope as the disclosure requirements have been relocated to the Order.
- *Amendments to NZ IFRS to Harmonise with IFRS and Australian Accounting Standards* – The amendments remove certain New Zealand-specific disclosures and relocate certain disclosure requirements to a new standard. The Banking Group has chosen to continue disclosing certain information no longer required as a result of this joint Trans-Tasman Convergence project.
- Financial Reporting Standard 44 *New Zealand Additional Disclosures* – This new standard is applicable only to New Zealand and is a consequence of the joint Trans-Tasman Convergence project of the Australian Accounting Standards Board and Financial Reporting Standards Board. This standard relocates certain New Zealand-specific disclosures from other NZ IFRS and also revises certain disclosures.

Adoption of these new and revised accounting standards has not resulted in any material change to the Banking Group's reported result or financial position.

In these financial statements reference is made to the following reporting entities:

- Westpac New Zealand Limited and its controlled entities (otherwise referred to as the '**Banking Group**'); and
- Westpac New Zealand Limited (otherwise referred to as the '**Bank**').

Controlled entities of the Banking Group as at 30 September 2011 are set out in Note 26 to the Banking Group's financial statements included in the Disclosure Statement for the year ended 30 September 2011. Except as detailed in Notes 2, 10 and 19 to these financial statements, there have been no other changes to the composition of the Banking Group since 30 September 2011.

These financial statements were authorised for issue by the Board on 30 May 2012. The Board has the power to amend the financial statements after they are authorised for issue.

Basis of preparation

These financial statements are based on the general principles of historical cost accounting, as modified by fair value accounting for available-for-sale financial assets, financial assets and financial liabilities at fair value through profit or loss and all financial derivative contracts. The going concern concept and the accrual basis of accounting have been adopted. All amounts are expressed in New Zealand dollars unless otherwise stated.

The same accounting policies and methods of computation have been followed in preparing these financial statements as were used in preparing the Disclosure Statement for the year ended 30 September 2011, except as amended for the changes required due to the adoption of the new and revised accounting standards as explained in the 'Statutory base' section above.

Certain comparative information has been restated to ensure consistent treatment with the current reporting period. Where there has been a material restatement of comparative information the nature of, and the reason for, the restatement is disclosed in the relevant note.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries (including special purpose entities) controlled by the Bank and the results of those subsidiaries. The effects of all transactions between entities within the Banking Group are eliminated. Control exists when the parent entity has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable or convertible are taken into account.

Subsidiaries are fully consolidated from the date on which control commences and are de-consolidated from the date on which control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Banking Group.

Note 1 Statement of accounting policies (continued)

The Banking Group may invest in or establish special purpose entities to enable it to undertake specific types of transactions. Where the Banking Group controls such entities they are consolidated into the Banking Group's financial results.

Non-controlling interests are stated at the proportion of the net profit and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly by the Bank. Losses are attributed to the non-controlling interest even if that results in a deficit balance.

Common control transactions

The predecessor method of accounting is used to account for business combinations between entities within the Banking Group.

Assets acquired and liabilities assumed in a common control transaction are measured initially at the acquisition date at the carrying value from the Ultimate Parent Bank's perspective. The excess of the cost of acquisition over the initial carrying values of the entity's share of the net assets acquired is recorded as part of a common control reserve.

Note 2 Business combination – transfer of operations

Until 1 November 2006, the Ultimate Parent Bank conducted its operations in New Zealand through a branch structure. On that date, and after extensive consultation with the Reserve Bank, the Ultimate Parent Bank adopted a dual operating model including a locally incorporated subsidiary, the Bank, to conduct its consumer and business banking operations in New Zealand, and the NZ Branch to conduct its institutional and financial markets operations.

Following an independent review of the structure of the operating model of the Ultimate Parent Bank's business in New Zealand, the Reserve Bank, the Bank and the Ultimate Parent Bank reached agreement on changes to the operating model. On 1 November 2011, assets and liabilities associated with certain business activities formerly conducted by the NZ Branch were transferred to the Bank. The transfer occurred pursuant to the Westpac New Zealand Act 2011.

The following business activities were transferred to the Bank:

- institutional customer deposits;
- institutional customer transactional banking;
- institutional customer lending (other than trade financing activities);
- debt capital markets activities carried out in assisting corporate customers to obtain funding, such as loan syndication and securitisation arrangements, but excluding the debt securities team activities, such as arrangement of commercial paper and bond programmes;
- corporate advisory; and
- institutional customer foreign currency accounts.

The NZ Branch has retained:

- financial markets operations for external customers, including sales and trading of capital markets products and foreign exchange for corporate and institutional customers;
- pricing and risk management for interest rate, foreign exchange and commodity products for consumer, business and institutional customers of the Bank;
- trading of capital markets products and foreign exchange as principal;
- global intra-group financing functions;
- correspondent bank relationships;
- debt securities team activities, such as arrangement of commercial paper and bond programmes; and
- international business, including trade finance activities but excluding customer foreign currency accounts.

The acquisition involved the transfer to the Bank of $6,446 million of assets consisting primarily of loans to corporate customers of $6,336 million and $5,303 million of liabilities consisting primarily of deposits of $5,060 million. For the financial year ended 30 September 2011, the business activities transferred from the NZ Branch to the Bank accounted for net operating income of $166 million (30 September 2010: $163 million) and profit after income tax expense of $114 million (30 September 2010: $103 million).

Funding of acquisition

To fund the purchase of the assets and liabilities relating to the business activities transferred from the NZ Branch (as well as the additional liquid assets required to be held by the Banking Group as a result of the transfer), a loan of $3.1 billion was provided to the Bank by the NZ Branch and the Bank raised $1,130 million in additional share capital.

The loan of $3.1 billion is for a period of three years and was priced at the New Zealand Bank Bill Reference Rate plus a margin that reflected market pricing on 1 November 2011.

The Bank issued a total of 1,130 million additional ordinary shares for $1 per share to the Bank's immediate parent company, WNZGL, in connection with the transfer. On 28 October 2011, the Bank issued 900 million ordinary shares for $1 per share, and on 31 October 2011, the Bank issued an additional 230 million ordinary shares for $1 per share. Immediately prior to the issuance of these additional 230 million ordinary shares, the Bank paid a dividend to WNZGL of $230 million. These transactions were in accordance with the Banking Group's capital management policy.

Compliance with condition of registration 14 and BS13 requirements (unaudited)

As a result of the transfer of the business activities set out above, the Banking Group is required to hold additional liquid assets in order to comply with condition of registration 14, which relates to liquidity, and the Reserve Bank document *Liquidity Policy* (BS13). These liquid assets were acquired through a combination of on market purchases and a purchase of liquid assets from the NZ Branch. The Banking Group was compliant with both condition of registration 14 and BS13 immediately following the transfer on 1 November 2011.

Note 2 Business combination – transfer of operations (continued)

Asset and liabilities transferred from the NZ Branch to the Bank as at 1 November 2011

	Assets and Liabilities Transferred As at 1 November 2011 Audited $m
Assets	
Cash and balances with central banks	58
Loans	6,336
Deferred tax assets	28
Other assets	24
Total assets	6,446
Liabilities	
Due to other financial institutions	212
Deposits	5,060
Provisions	12
Other liabilities	19
Total liabilities	5,303
Net assets acquired	1,143

Contingent liabilities and commitments transferred from the NZ Branch to the Bank as at 1 November 2011

	The Bank
	As at 1 November 2011 Audited $m
Contingent liabilities and commitments	
Transaction-related contingent items	421
Short-term, self-liquidating trade-related contingent liabilities	107
Other commitments to provide financial services	6,464
Total contingent liabilities and commitments	6,992

Consideration paid for the business transferred from the NZ Branch to the Bank on 1 November 2011

	The Bank
	As at 1 November 2011 Audited $m
Consideration transferred	
Intragroup payables	3,100
Trading securities	(1,957)
Total consideration transferred	1,143

Note 2 Business combination – transfer of operations (continued)

Impact of the transferred business activities on the Banking Group

	Note	The Banking Group		
		Pre-existing Operations $m	Transferred Operations[1] $m	Total $m
For the period ended 31 March 2012 (Unaudited)				
Interest income		1,686	225	1,911
Interest expense		(1,026)	(163)	(1,189)
Net interest income		660	62	722
Non-interest income:				
Fees and commission	3	153	15	168
Other non-interest income	3	15	-	15
Total non-interest income		168	15	183
Net operating income		828	77	905
Operating expenses		(394)	(7)	(401)
Impairment charges on loans	4	(98)	(2)	(100)
Profit before income tax expense		336	68	404
Income tax expense		(93)	(20)	(113)
Profit after income tax expense		243	48	291

Transferred business activities for the six months ended 31 March 2012

	Pre-acquisition result[2] $m	Transferred Operations[1] $m	Total $m
For the period ended 31 March 2012 (Unaudited)			
Interest income	46	225	271
Interest expense	(30)	(163)	(193)
Net interest income	16	62	78
Non-interest income:			
Fees and commission	4	15	19
Total non-interest income	4	15	19
Net operating income	20	77	97
Operating expenses	(2)	(7)	(9)
Impairment charges on loans	2	(2)	-
Profit before income tax expense	20	68	88
Income tax expense	(5)	(20)	(25)
Profit after income tax expense	15	48	63

1 Represents the five month result of the transferred business operations since the acquisition date on 1 November 2011, as included in the Banking Group's consolidated income statement.

2 Represents the pre-acquisition result of the transferred business operations from 1 October 2011 through 31 October 2011.

Notes to the financial statements

Note 3 Non-interest income

	The Banking Group		
	Six Months Ended 31 March 2012 Unaudited $m	Six Months Ended 31 March 2011 Unaudited $m	Year Ended 30 September 2011 Audited $m
Fees and commissions			
Transaction fees and commissions	**114**	105	210
Lending fees (loan and risk)	**29**	27	55
Management fees received from related entities	**1**	1	3
Insurance commissions received	**17**	14	30
Other non-risk fee income	**7**	-	1
Total fees and commissions	**168**	147	299
Gains on ineffective hedges	**-**	1	1
Other non-interest income			
Net unrealised gains/(losses) on derivatives held for trading	**4**	2	(4)
Dividend income	**-**	-	3
(Losses)/gains on disposal of property, plant and equipment	**-**	(1)	7
Other	**11**	2	2
Total other non-interest income	**15**	3	8
Total non-interest income	**183**	151	308

Note 4 Impairment charges on loans

	The Banking Group			
	Residential Mortgages $m	**Other Loans for Consumer Purposes $m**	**Loans for Business Purposes $m**	**Total $m**
Six months ended 31 March 2012 (Unaudited)				
Collectively assessed provisions	**1**	**3**	**-**	**4**
Individually assessed provisions	**19**	**-**	**56**	**75**
Bad debt write-off directly to the income statement	**3**	**20**	**15**	**38**
Interest adjustments	**(2)**	**(4)**	**(11)**	**(17)**
Total impairment charges on loans	**21**	**19**	**60**	**100**
Six months ended 31 March 2011 (Unaudited)				
Collectively assessed provisions	-	(20)	(36)	(56)
Individually assessed provisions	47	-	127	174
Bad debt write-off directly to the income statement	-	20	8	28
Interest adjustments	(4)	(8)	(9)	(21)
Total impairment charges on loans	43	(8)	90	125
Year ended 30 September 2011 (Audited)				
Collectively assessed provisions	(14)	(35)	(33)	(82)
Individually assessed provisions	80	-	187	267
Bad debt write-off directly to the income statement	5	44	23	72
Interest adjustments	(6)	(12)	(15)	(33)
Total impairment charges on loans	65	(3)	162	224

Note 5 Trading securities

	The Banking Group		
	31 March 2012 Unaudited $m	31 March 2011 Unaudited $m	30 September 2011 Audited $m
Trading securities			
Listed:			
NZ Government securities	**371**	1,829	1,035
Total listed securities	**371**	1,829	1,035
Unlisted:			
NZ corporate securities:			
Certificates of deposit	**2,167**	1,765	2,007
Corporate bonds	**255**	-	209
NZ Government securities	**192**	-	10
Total unlisted securities	**2,614**	1,765	2,226
Total trading securities	**2,985**	3,594	3,261

As at 31 March 2012 no trading securities in the Banking Group (31 March 2011: nil, 30 September 2011: nil) were encumbered through repurchase agreements.

Note 6 Loans

	The Banking Group		
	31 March 2012 Unaudited $m	31 March 2011 Unaudited $m	30 September 2011 Audited $m
Overdrafts	**1,296**	897	945
Credit card outstandings	**1,320**	1,264	1,270
Money market loans	**939**	613	571
Term loans:			
Housing	**35,570**	34,472	35,086
Non-housing	**19,307**	13,236	13,743
Other	**452**	257	208
Total gross loans	**58,884**	50,739	51,823
Provisions for impairment charges on loans	**(680)**	(765)	(573)
Total net loans	**58,204**	49,974	51,250

Movements in impaired assets and provisions for impairment charges on loans are outlined in Note 7.

On 22 November 2010, Westpac NZ Covered Bond Limited ('**WNZCBL**') was incorporated, as part of the Banking Group's global covered bond programme, to hold a portion of the Banking Group's housing loans and to provide guarantees of the covered bonds issued from time to time by Westpac Securities NZ Limited ('**WSNZL**'). WSNZL is an indirect, wholly-owned subsidiary company of the Bank. Each guarantee provided by WNZCBL is secured by the housing loans from time to time held by WNZCBL. As at 31 March 2012, the value of covered bonds issued by WSNZL was €1.0 billion ($1.6 billion) (31 March 2011: €nil, $nil, 30 September 2011: €1.0 billion, $1.8 billion). As at 31 March 2012, the value of the assets held by WNZCBL (being the underlying collateral for those guarantees) was $3.76 billion (31 March 2011: $2.75 billion, 30 September 2011: $2.75 billion). These assets have not been derecognised from the Bank's financial statements in accordance with the accounting policies outlined in Note 1 to the financial statements for the year ended 30 September 2011.

On 2 April 2012, WSNZL issued CHF325 million ($435 million) of covered bonds, the terms of which were agreed in March 2012.

Note 7 Credit quality, impaired assets and provisions for impairment charges on loans

	The Banking Group			
	Six Months Ended 31 March 2012 (Unaudited)			
	Residential Mortgages $m	Other Loans for Consumer Purposes $m	Loans for Business Purposes $m	Total $m
Neither past due nor impaired				
Strong	-	-	7,346	7,346
Good/Satisfactory	34,143	1,681	11,442	47,266
Weak	-	-	1,534	1,534
Total neither past due nor impaired	34,143	1,681	20,322	56,146
Past due assets:				
Less than 30 days past due	977	98	273	1,348
At least 30 days but less than 60 days past due	132	22	30	184
At least 60 days but less than 90 days past due	56	10	17	83
At least 90 days past due	90	18	118	226
Total past due assets[1]	1,255	148	438	1,841
Individually impaired assets[2]				
Balance at beginning of the period	195	-	598	793
Additions	115	-	117	232
Amounts written off	(24)	-	(53)	(77)
Individually impaired assets acquired in business combination	-	-	118	118
Returned to performing or repaid	(114)	-	(55)	(169)
Balance at end of the period	172	-	725	897
Restructured assets				
Balance at beginning of the period	1	-	-	1
Deletions	(1)	-	-	(1)
Balance at end of the period	-	-	-	-
Total impaired assets	172	-	725	897
Total gross loans[3]	35,570	1,829	21,485	58,884
Individually assessed provisions				
Balance at beginning of the period	64	-	160	224
Impairment charges on loans:	-	-	-	-
New provisions	37	-	61	98
Recoveries	(5)	-	(2)	(7)
Reversals of previously recognised impairment charges on loans	(13)	-	(3)	(16)
Amounts written off	(21)	-	(37)	(58)
Interest adjustments	-	-	2	2
Individually assessed provisions acquired in business combination	-	-	40	40
Balance at end of the period	62	-	221	283
Collectively assessed provisions				
Balance at beginning of the period	66	69	240	375
Impairment movement on loans	1	3	-	4
Collectively assessed provisions acquired in business combination	-	-	57	57
Balance at end of the period	67	72	297	436
Total provision for impairment charges on loans and credit commitments	129	72	518	719
Provision for credit commitments	-	-	(39)	(39)
Total provision for impairment charges on loans	129	72	479	680
Total net loans	35,441	1,757	21,006	58,204

As at 31 March 2012, the Banking Group had no other interest bearing assets that would be required to be disclosed as non-accrual[4], past due, restructured or potential problem loans[4], if such assets were loans.

1 Past due assets are not impaired assets under NZ IFRS.
2 The Banking Group has undrawn commitments of $5 million on individually impaired assets under loans for business purposes as at 31 March 2012.
3 The Banking Group did not have other assets under its administration as at 31 March 2012.
4 Loans with individually assessed impairment provisions held against them, excluding restructured loans, are classified as non-accrual for US SEC reporting purposes. Potential problem loans are facilities that are performing and no loss is expected, but the customer demonstrates significant weakness in debt servicing or security cover that could jeopardise repayment of debt on current terms if not rectified.

Note 8 Deposits

	The Banking Group		
	31 March 2012 Unaudited $m	31 March 2011 Unaudited $m	30 September 2011 Audited $m
Deposits at fair value			
Certificates of deposit	**1,412**	1,482	1,556
Total deposits at fair value	**1,412**	1,482	1,556
Deposits at amortised cost			
Non-interest bearing, repayable at call	**2,937**	2,723	2,699
Other interest bearing:			
At call	**15,543**	10,722	11,403
Term	**20,944**	18,242	19,228
Total deposits at amortised cost	**39,424**	31,687	33,330
Total deposits	**40,836**	33,169	34,886

Priority of financial liabilities in the event of liquidation
In the unlikely event that the Bank was put into liquidation or ceased to trade, claims of secured creditors and those creditors set out in the Seventh Schedule of the Companies Act 1993 would rank ahead of the claims of unsecured creditors. Deposits from customers are unsecured and rank equally with other unsecured liabilities of the Bank, and such liabilities rank ahead of any subordinated instruments issued by the Bank.

Note 9 Debt issues

	The Banking Group		
	31 March 2012 Unaudited $m	31 March 2011 Unaudited $m	30 September 2011 Audited $m
Short-term debt			
Commercial paper	**4,211**	8,265	7,229
Total short-term debt	**4,211**	8,265	7,229
Long-term debt			
Non-domestic medium-term notes	**8,111**	6,579	8,803
Domestic medium-term notes	**2,060**	2,222	1,598
Total long-term debt	**10,171**	8,801	10,401
Total debt issues	**14,382**	17,066	17,630
Debt issues at amortised cost	**9,828**	8,636	9,903
Debt issues at fair value	**4,554**	8,430	7,727
Total debt issues	**14,382**	17,066	17,630

	31 March 2012 Unaudited $m	31 March 2011 Unaudited $m	30 September 2011 Unaudited $m
Movement in debt issues			
Balance at beginning of the period/year	**17,630**	15,439	15,439
Issuances during the period/year	**6,370**	9,681	17,788
Repayments during the period/year	**(8,842)**	(7,623)	(15,120)
Effect of foreign exchange movements during the period/year	**(820)**	(289)	(534)
Effect of fair value movements during the period/year	**44**	(142)	57
Balance at end of the period/year	**14,382**	17,066	17,630

As at 31 March 2012, the Banking Group had New Zealand Government guaranteed debt of $3,836 million on issue (31 March 2011: $4,082 million, 30 September 2011: $4,073 million). Refer to Guarantee arrangements on page 2 for further information on New Zealand Government guaranteed debt.

On 25 May 2012, USD1,500 million ($1,993 million) of New Zealand Government guaranteed, non-domestic medium term notes of the Banking Group matured.

Note 10 Related entities

On 9 May 2012, the Bank repurchased all 20,000 B voting shares from WOHL (representing 12% of the voting securities of the Bank). These shares were immediately cancelled on repurchase.

On 1 November 2011, the NZ Branch transferred additional business activities and associated employees to the Bank, which was accounted for as a business combination (refer to Note 2 Business combination – transfer of operations for further details). There have been no other changes to the structure or composition of the Banking Group since 30 September 2011.

Controlled entities of the Banking Group as at 30 September 2011 are set out in Note 26 to the Banking Group's financial statements included in the Disclosure Statement for the year ended 30 September 2011.

Note 11 Commitments and contingent liabilities

	The Banking Group		
	31 March 2012 Unaudited $m	31 March 2011 Unaudited $m	30 September 2011 Audited $m
Commitments for capital expenditure			
Due within one year	**1**	21	2
Other expenditure commitments:			
One year or less	**82**	86	89
Between one and five years	**304**	59	306
Over five years	**-**	-	34
Total other expenditure commitments	**386**	145	429
Lease commitments (all leases are classified as operating leases)			
Premises and sites	**222**	225	230
Motor vehicles	**6**	9	8
Total lease commitments	**228**	234	238
Lease commitments are due as follows:			
One year or less	**44**	50	44
Between one and five years	**112**	105	104
Over five years	**72**	79	90
Total lease commitments	**228**	234	238
Other contingent liabilities and commitments			
Direct credit substitutes	**79**	51	78
Loan commitments with certain drawdown	**160**	117	164
Transaction related contingent items	**661**	259	257
Short-term, self liquidating trade related contingent liabilities	**442**	341	339
Other commitments to provide financial services	**18,135**	10,984	11,403
Total other contingent liabilities and commitments	**19,477**	11,752	12,241

The Banking Group is party to financial instruments with off-balance sheet credit risk in the normal course of business to meet the financing needs of its customers and in managing its own risk profile. These financial instruments include commitments to extend credit, bill endorsements, financial guarantees, standby letters of credit and underwriting facilities.

The Banking Group's exposure to credit loss in the event of non-performance by the other party to such financial instruments is represented by the contract or notional amount of those instruments. However, some commitments to extend credit and provide underwriting facilities can be cancelled or revoked at any time at the Banking Group's option.

The Banking Group uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet financial instruments.

The Banking Group takes collateral where it is considered necessary to support both on and off-balance sheet financial instruments with credit risk. The Banking Group evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral taken, if deemed necessary, on the provision of a financial facility is based on management's credit evaluation of the counterparty. The collateral taken varies, but may include cash deposits, receivables, inventory, plant and equipment, real estate and investments.

The Banking Group is obliged to repurchase securitised loans:

(a) held by the Westpac Home Loan Trust ('**HLT**') where it is discovered within 120 days of sale that those loans were not eligible for sale when sold;

(b) held by Westpac NZ Securitisation Limited ('**WNZSL**') (pursuant to its securitisation programme) where the securitised loans cease to conform to certain terms and conditions of the WNZSL securitisation programme;

(c) held by WNZCBL (pursuant to the WSNZL Global Covered Bond Programme) where:

  (i) it is discovered that there has been a material breach of a sale warranty (or any such sale warranty is materially untrue);

  (ii) the securitised loan becomes materially impaired or is enforced prior to the second monthly covered bond payment date falling after the assignment of such securitised loan; or

  (iii) at the cut-off date relating to the securitised loan there were arrears of interest and that securitised loan subsequently becomes a delinquent loan prior to the second monthly covered bond payment date falling after the assignment of the securitised loan.

It is not envisaged that any liability resulting in material loss to the Banking Group will arise from these obligations.

The Bank guarantees the due and punctual payment of all sums payable to the holders of the debt securities issued by its indirect, wholly-owned subsidiary, WSNZL, the proceeds of which are immediately on-lent to the Bank. The aggregate amount of outstanding principal and interest as at 31 March 2012 was $12,189 million (31 March 2011: $14,962 million, 30 September 2011: $15,945 million). As the proceeds of the debt issuances are immediately on-lent to the Bank, the aggregate amount guaranteed by the Bank is already reflected in the Bank's balance sheet as part of the amounts due to related entities.

In addition, the Banking Group (through WNZCBL) guarantees covered bonds issued by WSNZL (refer to Note 6 for further details).

Note 11 Commitments and contingent liabilities (continued)

Other contingent liabilities

The Banking Group has other contingent liabilities in respect of actual and potential claims and proceedings. An assessment of the Banking Group's likely loss in respect of these matters has been made on a case-by-case basis and provision has been made in these financial statements where appropriate.

Westpac (NZ) Investments Limited ('**WNZIL**'), a subsidiary of the Bank, leases the majority of the properties the Bank occupies. As is normal practice, the lease agreements contain 'make good' provisions, which require WNZIL, upon termination of the lease, to return the premises to the lessor in the original condition. The maximum amount payable by WNZIL upon vacation of all leased premises subject to these provisions as at 31 March 2012 was estimated to be $21 million (31 March 2011: $25 million, 30 September 2011: $22 million). No amount has been recognised for the $21 million in estimated maximum vacation payments as the Banking Group believes it is highly unlikely that WNZIL would incur a material operating loss as a result of such 'make good' provisions in the normal course of its business operations.

Other commitments

As at 31 March 2012, the Banking Group had commitments in respect of interest rate swap transactions, provision of credit, underwriting facilities and other arrangements entered into in the normal course of business. The Banking Group has management systems and operational controls in place to manage interest rate, currency and credit risks. Accordingly, it is not envisaged that any liability resulting in a material loss to the Banking Group will arise from these transactions to the extent that a provision has not been provided for under the Banking Group's usual practices.

Note 12 Segment information

The Banking Group operates predominantly in the consumer, business, and institutional banking sectors within New Zealand. On this basis, no geographical segment information is provided.

The basis of segment reporting reflects the management of the business, rather than the legal structure of the Banking Group. There is no difference in accounting measurement between the management and legal structures. The operating segment results have been presented on a management reporting basis and consequently internal charges and transfer pricing adjustments have been reflected in the performance of each operating segment. Intersegment pricing is determined on a cost recovery basis.

The Banking Group does not rely on any single major customer for its revenue base.

The Banking Group's operating segments are defined by the customers they serve and the services they provide. The Banking Group has identified the following main operating segments:

- Retail Banking provides financial services for private individuals;
- Wealth provides financial services for high net worth individuals, funds management and insurance distribution;
- Business Banking provides financial services for small to medium sized enterprise customers, corporates and agricultural businesses. Business Banking also provides domestic transactional banking to the New Zealand Government; and
- Institutional Banking provides a broad range of financial services to large corporate, institutional and government customers[1].

Retail Banking and Wealth have been aggregated and disclosed as the Consumer Banking reportable segment. Business Banking and Institutional Banking are separate reportable segments.

Reconciling items primarily represent:

- business units that do not meet the definition of operating segments under NZ IFRS 8 *Operating Segments* ('**NZ IFRS 8**');
- elimination entries on consolidation of the results, assets and liabilities of the Banking Group's controlled entities in the preparation of the consolidated financial statements of the Banking Group;
- results of certain entities included for management reporting purposes, but excluded from the consolidated financial statements of the Banking Group for statutory financial reporting purposes; and
- results of certain business units excluded for management reporting purposes, but included within the consolidated financial statements of the Banking Group for statutory financial reporting purposes.

Net interest income and non-interest income have been included in the following table to align with the information provided to the 'chief operating decision maker'.

Comparative information for net operating income from external customers and net internal operating income has been changed to ensure consistent presentation with the current reporting period.

1 On 1 November 2011, the NZ Branch transferred additional institutional banking business activities and associated employees to the Bank (refer to Note 2 Business combination – transfer of operations for further details). Further information on the NZ Branch is available in Westpac Banking Corporation's most recently published Disclosure Statement.

Note 12 Segment information (continued)

	The Banking Group				
	Consumer Banking $m	Business Banking $m	Institutional Banking[1] $m	Reconciling Items $m	Total $m
Six months ended 31 March 2012 (Unaudited)					
Net operating income from external customers	**752**	**523**	**90**	**(460)**	**905**
Net internal operating income	**(204)**	**(233)**	**(13)**	**450**	**-**
Net operating income	**548**	**290**	**77**	**(10)**	**905**
Net interest income	**404**	**247**	**62**	**9**	**722**
Non-interest income	**144**	**43**	**15**	**(19)**	**183**
Net operating income	**548**	**290**	**77**	**(10)**	**905**
Operating expenses	**(99)**	**(36)**	**(7)**	**(259)**	**(401)**
Impairment charges on loans	**(32)**	**(67)**	**(2)**	**1**	**(100)**
Profit before income tax expense	**417**	**187**	**68**	**(268)**	**404**
Total gross loans	**31,078**	**21,700**	**6,325**	**(219)**	**58,884**
Total deposits	**23,523**	**10,378**	**5,523**	**1,412**	**40,836**
Six months ended 31 March 2011 (Unaudited)					
Net operating income from external customers	769	551	-	(534)	786
Net internal operating income	(270)	(283)	-	553	-
Net operating income	499	268	-	19	786
Net interest income	361	228	-	46	635
Non-interest income	138	40	-	(27)	151
Net operating income	499	268	-	19	786
Operating expenses	(103)	(37)	-	(242)	(382)
Impairment charges on loans	(27)	(88)	-	(10)	(125)
Profit before income tax expense	369	143	-	(233)	279
Total gross loans	30,055	20,858	-	(174)	50,739
Total deposits	21,961	9,630	-	1,578	33,169
Year ended 30 September 2011 (Audited)					
Net operating income from external customers	1,548	1,079	-	(1,003)	1,624
Net internal operating income	(510)	(526)	-	1,036	-
Net operating income	1,038	553	-	33	1,624
Net interest income	755	472	-	89	1,316
Non-interest income	283	81	-	(56)	308
Net operating income	1,038	553	-	33	1,624
Operating expenses	(208)	(76)	-	(487)	(771)
Impairment charges on loans	(64)	(167)	-	7	(224)
Share of profit of associate accounted for using equity method	-	-	-	1	1
Profit before income tax expense	766	310	-	(446)	630
Total gross loans	30,625	21,421	-	(223)	51,823
Total deposits	22,908	10,387	-	1,591	34,886

1 Represents the five month result of the transferred business operations since the acquisition date on 1 November 2011, as included in the Banking Group's consolidated income statement.

Note 13 Securitisation, funds management and other fiduciary activities

There have been no material changes in the nature of the Banking Group's involvement in the following activities since 31 December 2011:

- establishment, marketing, or sponsorship of trust, custodial, funds management, and other fiduciary activities;
- origination of securitised assets, and the marketing or servicing of securitisation schemes; or
- marketing and distribution of insurance products.

Risk management

Since 31 December 2011, there has been no material change in the Banking Group's risk management framework which has been put in place to help minimise the possibility that any difficulties arising from the above activities would impact adversely on the Banking Group.

Furthermore, during the six months ended 31 March 2012:

- financial services provided by any member of the Banking Group to entities which conduct the trust, custodial, securitisation, funds management and other fiduciary activities, or on whose behalf insurance products are marketed or distributed, have been provided on arm's length terms and conditions and at fair value; and
- assets purchased by any member of the Banking Group from entities which conduct the trust, custodial, securitisation, funds management and other fiduciary activities specified above, or on whose behalf insurance products are marketed or distributed, have been purchased on arm's length terms and conditions and at fair value.

Note 14 Insurance business

The Banking Group does not conduct any insurance business (as that term is defined in the Order).

Note 15 Capital adequacy

The information contained in this note has been derived in accordance with the Banking Group's conditions of registration which relate to capital adequacy and the document 'Capital adequacy framework (internal models based approach)' (BS2B) issued by the Reserve Bank.

The Banking Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Banking Group's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by the Reserve Bank in supervising the Banking Group.

During the six months ended 31 March 2012, the Banking Group complied in full with all its externally imposed capital requirements.

Summary of ICAAP

The Banking Group's Internal Capital Adequacy Assessment Process ('**ICAAP**') outlines the Banking Group's approach to ensuring it has sufficient available capital to meet minimum capital requirements, even under stressed scenarios. The Reserve Bank document 'Guidelines on a bank's internal capital adequacy assessment process (ICAAP)' (BS12) reinforces this internal discipline by incorporating a specific requirement that the board of a New Zealand incorporated bank has a duty to ensure that capital held by the bank is commensurate with the level and extent of its risks.

The Banking Group's ICAAP is founded on the core principle that its target level of capital is directly related to its risk appetite and corresponding risk profile. The connection between these two concepts is provided by economic capital. The economic capital requirement is calibrated to the Banking Group's target senior debt rating, which is one of the key parameters defined in the risk appetite statement. In addition to the economic capital based principles outlined above, the ICAAP also takes account of stress testing, minimum prudential capital ratios, thin capitalisation requirements and peer group comparatives.

The Banking Group's capital summary

	The Banking Group 31 March 2012 Unaudited $m
Tier One Capital	
Issued and fully paid up ordinary share capital	4,600
Revenue and similar reserves[1]	856
Current period's retained profits	290
Non-controlling interests	5
Less deductions from Tier One Capital	
Goodwill	(477)
Other intangible assets	(101)
Cash flow hedge reserve	(48)
Expected loss excess over eligible allowance	(63)
Total Tier One Capital	5,062
Tier Two Capital	
Upper Tier Two Capital	
Perpetual subordinated notes	970
B Voting shares	-
Total Upper Tier Two Capital	970
Less deductions from Tier Two Capital	
Expected loss excess over eligible allowance	(63)
Lower Tier Two Capital	-
Total Tier Two Capital	907
Total Capital	5,969

1 Revenue and similar reserves consist of cash flow hedge reserve, available-for-sale securities reserve and prior periods' retained profits net of dividend paid (refer to page 19).

Note 15 Capital adequacy (continued)

Capital structure

Ordinary shares

In accordance with the Reserve Bank document 'Capital adequacy framework (internal models based approach)' (BS2B) ordinary share capital is classified as Tier One Capital.

The ordinary shares have no par value. Subject to the constitution of the Bank, each ordinary share of the Bank carries the right to one vote on a poll at meetings of shareholders, the right to an equal share in dividends authorised by the Board and the right to an equal share in the distribution of the surplus assets of the Bank in the event of liquidation.

B voting shares

There were 20,000 B voting shares on issue as at 31 March 2012 (31 March 2011: 20,000, 30 September 2011: 20,000) with an aggregate par value of $0.02 million (31 March 2011: $0.02 million, 30 September 2011: $0.02 million).

The B voting shares are classified as Upper Tier Two Capital. The holder of each B voting share is entitled to cast 31,250 votes (which, as at the date of issue, carried an entitlement to 20% of the voting rights entitled to be cast on a poll at a meeting of shareholders of the Bank). No dividends are payable on B voting shares. In the event of liquidation of the Bank, a holder of a B voting share is entitled to receive the amount of the issue price of each B voting share held, and in priority to amounts paid to holders of ordinary shares, but is not entitled to any further amount of any surplus assets.

On 9 May 2012, the Bank repurchased these B voting shares from WOHL. These shares were immediately cancelled on repurchase. Please refer to Note 19 Events after the reporting date for further details.

Perpetual subordinated notes

Perpetual subordinated notes have been issued to WNZGL and constitute Upper Tier Two Capital of the Banking Group. The notes have no final maturity date, but may be redeemed at par only at the option of the Bank. The notes pay quarterly distributions provided that at the time payment is made the Bank will be solvent immediately after payment. The notes are direct and unsecured obligations of the Bank and are subordinated to the claims of all creditors (including depositors) of the Bank other than those creditors whose claims against the Bank are expressed to rank equally with or after the claims of the note holder.

Reserves

Available-for-sale securities reserve

The available-for-sale securities reserve comprises the changes in the fair value of available-for-sale securities, net of tax. These changes are recognised in the income statement as other income when the asset is either derecognised or impaired.

Cash flow hedge reserve

The cash flow hedge reserve comprises the fair value gains and losses associated with the effective portion of designated cash flow hedging instruments.

Basel II

The Basel II Framework is built on three mutually reinforcing pillars. Pillar 1 sets out the mechanics for minimum capital adequacy requirements for credit, traded market and operational risks. Pillar 2 relates to the internal assessment of capital adequacy and the supervisory review process. Pillar 3 deals with market disclosure and market discipline.

The table below is disclosed in accordance with Clause 15 of Schedule 11 to the Order and represents the capital adequacy calculation based on the Reserve Bank document 'Capital adequacy framework (internal models based approach)' (BS2B).

	The Banking Group	
	31 March 2012 Unaudited %	31 March 2011 Unaudited %
Capital adequacy ratios		
Tier One Capital ratio	**11.7**	10.3
Total Capital ratio	**13.7**	13.0
Reserve Bank minimum ratios		
Tier One Capital ratio[1]	**4.0**	4.0
Total Capital ratio	**8.0**	8.0

1 Locally incorporated registered banks having the benefit of the Wholesale Funding Guarantee Facility are required to maintain an additional 2% Tier One Capital ratio buffer. Further information about the Wholesale Guarantee is included in the Bank's Disclosure Statement for the year ended 30 September 2011 and on page 2 of this Disclosure Statement.

Note 15 Capital adequacy (continued)

The Banking Group Pillar 1 total capital requirement

	The Banking Group		
	As at 31 March 2012 (Unaudited)		
	Total Exposure After Credit Risk Mitigation $m	Risk-weighted Exposure or Implied Risk-weighted Exposure (scaled)[1] $m	Total Capital Requirement $m
Credit risk			
Exposures subject to the internal ratings based approach	79,742	32,696	2,616
Exposures not subject to the internal ratings based approach			
Equity exposures	62	186	15
Specialised lending subject to the slotting approach	4,833	4,846	388
Exposures subject to the standardised approach	2,500	981	78
Total exposures not subject to the internal ratings based approach	7,395	6,013	481
Total credit risk	87,137	38,709	3,097
Operational risk	N/A	3,961	317
Market risk	N/A	757	61
Total	N/A	43,427	3,475

1 As disclosed in the Bank's conditions of registration, the value of the scalar used in determining the minimum capital requirement (Required Regulatory Capital) is 1.06. The full details of the Bank's conditions of registration are included on pages 2 to 5.

Pillar 2 capital for other material risk

The Banking Group's ICAAP identifies and measures all 'other material risk', which is a combination of business risk, liquidity risk and other asset risk. These risks are defined as:

- Business risk – reflects the risk associated with the vulnerability of a line of business to changes in the business environment.
- Liquidity risk – is the potential inability to meet payment obligations as they come due, without incurring unacceptable losses.
- Other asset risk – reflects the strategic risk associated with the composition of the balance sheet that is not reflected in other risk categories.

The Banking Group's internal capital allocation for 'other material risk' is:

	The Banking Group	
	31 March 2012 Unaudited $m	31 March 2011 Unaudited $m
Internal capital allocation		
Other material risk	326	340

Basel I

The table below represents the capital adequacy calculation based on the Basel I Capital adequacy framework.

For the purposes of calculating the capital adequacy ratios for the Bank, wholly-owned and wholly-funded subsidiaries of the Banking Group are consolidated with the Bank. In this context, wholly-funded by the Bank means there are no liabilities (including off-balance sheet obligations) to anyone other than the Bank, the Inland Revenue or trade creditors, where aggregate exposure to trade creditors does not exceed 5% of the subsidiary's shareholders' equity. Wholly-owned by the Bank means that all equity issued by the subsidiary is held by the Bank.

	The Bank	
	31 March 2012 Unaudited %	31 March 2011 Unaudited %
Capital adequacy ratios		
Tier One Capital ratio	8.8	7.7
Total Capital ratio	10.5	9.8

Note 15 Capital adequacy (continued)

Ultimate Parent Bank Group Basel II capital adequacy ratios

	31 March 2012 Unaudited %	31 March 2011 Unaudited %
Ultimate Parent Bank Group[1]		
Tier One Capital ratio	**9.8**	9.5
Total Capital ratio	**10.8**	11.0
Ultimate Parent Bank (Extended Licensed Entity)[1, 2]		
Tier One Capital ratio	**9.8**	9.5
Total Capital ratio	**11.1**	11.3

1 The capital ratios represent information mandated by the Australian Prudential Regulation Authority ('**APRA**').

2 The capital ratios of the Ultimate Parent Bank (Extended Licensed Entity) are publicly available in the Ultimate Parent Bank Group's Basel II Pillar 3 report. This information is made available to users via the Ultimate Parent Bank's website (www.westpac.com.au).

Basel II came into effect on 1 January 2008. The Ultimate Parent Bank Group is accredited by APRA to apply the Advanced Internal Ratings Based ('**Advanced IRB**') approach for credit risk, the Advanced Measurement Approach ('**AMA**') for operational risk and the internal model approach for interest rate risk in the banking book for calculating regulatory capital (known as 'Advanced Accreditation') and is required by APRA to hold minimum capital at least equal to that specified under the Advanced IRB and AMA methodologies. Under New Zealand regulations this methodology is referred to as Basel II (internal models based) approach. With this accreditation the Ultimate Parent Bank Group is required to disclose additional detailed information on its risk management practices and capital adequacy on a quarterly and a semi-annual basis. This information is made available to users via the Ultimate Parent Bank's website (www.westpac.com.au). The aim is to allow the market to better assess the Ultimate Parent Bank Group's risk and reward assessment process and hence increase the scrutiny of these processes.

The Ultimate Parent Bank Group, and the Ultimate Parent Bank (Extended Licensed Entity as defined by APRA), exceeded the minimum capital adequacy requirements as specified by APRA as at 31 March 2012. APRA specifies a minimum prudential capital ratio for the Ultimate Parent Bank Group, which is not made publicly available.

Note 16 Risk management

There have been no material changes to the risk management policies of the Banking Group, and no new categories of risk to which the Banking Group has become exposed, since 31 December 2011.

16.1 Operational risk

The Banking Group's operational risk capital requirement

	The Banking Group	
	31 March 2012 (Unaudited)	
	Implied Risk-weighted Exposure $m	Total Operational Risk Capital Requirement $m
Methodology implemented		
Advanced measurement approach		
Operational risk	**3,961**	**317**

16.2 Credit risk

Credit risk mitigation

The Banking Group evaluates each customer's credit risk on a case-by-case basis and also takes collateral where it is considered necessary to mitigate credit risk. The amount of collateral taken is based on management's credit evaluation of the counterparty. The collateral taken may vary, but could include cash deposits, receivables, inventory, plant and equipment, real estate and/or investments.

The Banking Group includes the effect of credit risk mitigation through eligible guarantees within the calculation applied to Loss Given Default. The value of the guarantee is not separately recorded, and therefore not available for disclosure.

The Banking Group has not obtained any financial or non-financial assets by taking possession of collateral it holds as security or calling on other credit enhancements.

Risk reduction by way of current account set-offs is recognised for exposures to creditworthy customers domiciled in New Zealand only. Customers are required to enter into formal agreements giving the Banking Group the unfettered right to set-off gross credit and debit balances in their nominated accounts to determine the Bank's net exposure within New Zealand. Cross-border set-offs are not permitted.

Payment and close-out netting is undertaken for off-balance sheet financial market transactions with counterparties with whom the Banking Group has entered into legally enforceable master dealing agreements which allow such netting in specified jurisdictions. Payment netting allows the Bank to net settlements on any day to reduce cash flow exchanges between counterparties. Close-out netting effectively aggregates pre-settlement risk exposure at the time of default, thus reducing overall exposure.

Note 16 Risk management (continued)

Definitions of PD, LGD, EAD and TCE

(i) Probability of Default ('PD')

PD is a through the cycle assessment of the likelihood of a customer defaulting on its financial obligations within one year.

(ii) Loss Given Default ('LGD')

LGD represents an estimate of the expected severity of a loss to the Banking Group should a customer default occur during an economic downturn.

(iii) Exposure at Default ('EAD')

EAD represents an estimate of the amount of committed exposure expected to be drawn by the customer at the time of default.

(iv) Total Committed Exposure ('TCE')

TCE represents the sum of on-and off-balance sheet exposures.

The Banking Group's credit risk exposures by asset class as at 31 March 2012 (Unaudited)

PD Band (%)	TCE $m	EAD $m	Average PD %	Average LGD %	Average Risk Weight %	Risk-weighted Assets (scaled)[1] $m	Required Regulatory Capital $m
Residential mortgages							
0.00 to 0.10	-	-	-	-	-	-	-
0.10 to 0.25	2,182	1,874	-	22	8	159	13
0.25 to 1.0	20,197	19,367	1	22	19	3,772	302
1.0 to 2.5	14,627	14,282	1	22	36	5,108	408
2.5 to 10.0	4,144	4,100	5	22	70	2,863	229
10.0 to 99.99	-	-	-	-	-	-	-
Default	580	575	100	22	204	1,171	94
Total	41,730	40,198	3	22	33	13,073	1,046
Other retail (credit cards, personal loans, personal overdrafts)							
0.00 to 0.10	-	-	-	-	-	-	-
0.10 to 0.25	664	452	-	41	14	63	5
0.25 to 1.0	1,846	1,094	-	63	40	434	35
1.0 to 2.5	1,309	1,146	2	67	94	1,077	86
2.5 to 10.0	348	342	5	82	130	444	35
10.0 to 99.99	257	257	20	70	154	395	32
Default	29	27	100	67	89	24	2
Total	4,453	3,318	4	64	73	2,437	195
Small business							
0.00 to 0.10	-	-	-	-	-	-	-
0.10 to 0.25	274	199	-	74	26	52	4
0.25 to 1.0	793	789	1	23	22	171	14
1.0 to 2.5	-	-	-	-	-	-	-
2.5 to 10.0	2,021	1,988	3	19	29	573	46
10.0 to 99.99	38	39	22	24	56	22	2
Default	127	129	100	24	266	343	27
Total	3,253	3,144	7	24	37	1,161	93

1 As disclosed in the Bank's conditions of registration, the value of the scalar used in determining the minimum capital requirement (Required Regulatory Capital) is 1.06. The full details of the Bank's conditions of registration are included on pages 2 to 5.

Note 16 Risk management (continued)

PD Grade	TCE $m	EAD $m	Average PD %	Average LGD %	Average Risk Weight %	Risk-weighted Assets (scaled)[1] $m	Required Regulatory Capital $m
Banking Group – Corporate/ Business lending							
AAA	341	341	-	22	8	28	2
AA	1,555	1,492	-	29	13	194	16
A	3,242	3,163	-	49	26	838	67
BBB	6,343	6,015	-	44	49	2,934	235
BB	8,860	8,824	2	36	81	7,168	573
B	199	198	3	36	98	194	16
Other	1,178	1,175	24	48	250	2,941	235
Default	432	585	135	64	179	1,050	84
Total	22,150	21,793	6	41	70	15,347	1,228
Sovereign							
AAA	560	560	-	10	5	26	2
AA	3,911	3,804	-	6	3	98	8
A	757	754	-	20	12	91	7
BBB	285	285	-	21	12	35	3
BB	46	46	2	35	13	6	-
B	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Default	-	-	-	-	-	-	-
Total	5,559	5,449	-	9	5	256	20
Bank							
AAA	-	-	-	-	-	-	-
AA	2,414	2,413	-	58	16	395	31
A	103	103	-	60	18	19	2
BBB	78	77	-	21	10	8	1
BB	-	-	-	-	-	-	-
B	1	-	-	-	-	-	-
Other	1	1	-	60	-	-	-
Default	-	-	-	-	-	-	-
Total	2,597	2,594	-	57	16	422	34

The Banking Group's equity as at 31 March 2012 (Unaudited)

Equity	TCE $m	EAD $m	Average PD %	Average LGD %	Average Risk Weight %	Risk-weighted Assets (scaled)[1] $m	Required Regulatory Capital $m
Equity holdings (not deducted from capital) that are publicly traded	62	62	-	-	300	186	15

1 As disclosed in the Bank's conditions of registration, the value of the scalar used in determining the minimum capital requirement (Required Regulatory Capital) is 1.06. The full details of the Bank's conditions of registration are included on pages 2 to 5.

Note 16 Risk management (continued)

The following table summarises the Banking Group's credit risk exposures by asset class arising from undrawn commitments and other off-balance sheet exposures. These amounts are included in the previous tables.

	Undrawn Commitments and Other Off-balance Sheet Amounts		Market Related Contracts	
	Value $m	EAD $m	Value $m	EAD $m
Residential mortgages	6,253	4,719	-	-
Other retail (Credit cards, personal loans, personal overdrafts)	2,680	1,544	-	-
Small business	977	867	-	-
Corporate/Business lending	7,885	7,406	-	-
Sovereign	1,180	1,071	-	-
Bank	93	92	-	-
Total	19,068	15,699	-	-

The Banking Group's Specialised lending: Project and property finance credit risk exposures as at 31 March 2012 (Unaudited)

Supervisory slotting grade	TCE $m	EAD $m	Average Risk Weight %	Risk-weighted Assets (scaled)[1] $m	Required Regulatory Capital $m
Strong	839	839	70	587	47
Good	2,325	2,325	90	2,092	168
Satisfactory	891	891	115	1,026	82
Weak	456	456	250	1,141	91
Default	322	475	-	-	-
Total	4,833	4,986	97	4,846	388

The following table summarises the Banking Group's Specialised lending: Project and property finance credit risk exposures arising from undrawn commitments and other off-balance sheet exposures. These amounts are included in the above table.

	TCE $m	EAD $m	Average Risk Weight %	Risk-weighted Assets (scaled)[1] $m	Required Regulatory Capital $m
Undrawn commitments and other off-balance sheet amounts	409	409	100	409	33

The Banking Group's credit risk exposures subject to the standardised approach as at 31 March 2012 (Unaudited)

	TCE $m	EAD $m	Average Risk Weight %	Risk-weighted Exposure $m	Required Regulatory Capital $m
Property, plant and equipment and other assets	364	364	100	364	29
Related parties	1,628	1,628	28	460	37
Total on-balance sheet exposures	1,992	1,992		824	66

	Total Principal Amount $m	Credit Equivalent Amount $m	Average Risk Weight %	Risk-weighted Exposure $m	Required Regulatory Capital $m
Market related contracts subject to the standardised approach					
Foreign exchange contracts	13,112	327	20	65	5
Interest rate contracts	47,189	181	20	36	3
Total market related contracts subject to the standardised approach	60,301	508		101	8
Total credit risk exposures subject to the standardised approach	62,293	2,500		925	74
After adjustment for scalar[1]				981	78

1 As disclosed in the Bank's conditions of registration, the value of the scalar used in determining the minimum capital requirement (Required Regulatory Capital) is 1.06. The full details of the Bank's conditions of registration are included on pages 2 to 5.

Note 16 Risk management (continued)

The Banking Group's residential mortgages by loan-to-value ratio ('LVR') as at 31 March 2012 (Unaudited)

In order to calculate origination LVR, the current exposure is that used in the internal ratings based approach for mortgage lending. For loans originated from 1 January 2008, the Bank utilises its loan origination system. For loans originated prior to 1 January 2008, the origination LVR is not separately recorded, and therefore not available for disclosure as required under Clause 4 of Schedule 11 to the Order. For these loans, the Bank utilises its dynamic LVR process to calculate an origination LVR. Exposures for which no LVR is available have been included in the Exceeds 90% category in accordance with the requirements of the Order.

LVR range	Does not Exceed 60%	Exceeds 60% and not 70%	Exceeds 70% and not 80%	Exceeds 80% and not 90%	Exceeds 90%	Total
On-balance sheet exposures	13,349	5,713	7,789	5,483	3,143	35,477
Undrawn commitments and other off-balance sheet exposures	3,863	914	879	374	223	6,253
Value of exposures ($m)	**17,212**	**6,627**	**8,668**	**5,857**	**3,366**	**41,730**

The Banking Group's reconciliation of residential mortgage-related amounts

The table below provides the Banking Group's reconciliation of amounts disclosed in this Disclosure Statement that relate to mortgages on residential property.

	The Banking Group 31 March 2012 Unaudited $m
Term loans – Housing (as disclosed in Note 6) and Residential mortgages - total gross loans (as disclosed in Note 7)	35,570
Reconciling items:	
Unamortised deferred fees and expenses	(50)
Fair value hedge adjustments	(43)
Undrawn commitments and other off-balance sheet exposures	6,253
Residential mortgages by LVR	**41,730**

16.3 Market risk

Market risk notional capital charges

The Banking Group's aggregate market risk exposure is derived in accordance with the Reserve Bank document 'Capital adequacy framework (internal models based approach)' (BS2B) and is determined for the six-month period ended 31 March 2012. The end-of-period aggregate market risk exposure is calculated from the period end balance sheet information. The peak end-of-day exposure is derived by taking the largest daily internal risk measure (Value-at-Risk ('**VaR**')) during the six month period, comparing this to the current and previous period end VaRs and calculating the peak risk by using the ratio of the peak to the period ends. This method is approximate only as the two methods differ in the assumed repricing characteristics of the balance sheet. For each category of market risk, the Banking Group's peak end-of-day capital charge is the aggregate capital charge for that category of market risk derived in accordance with the Reserve Bank document 'Capital adequacy framework (internal models based approach)' (BS2B).

The following table provides a summary of the Banking Group's capital charges by risk type as at the reporting date and the peak end-of-day capital charges by risk type for the six-month period ended 31 March 2012:

	The Banking Group 31 March 2012 (Unaudited)	
	Implied Risk-weighted Exposure $m	Aggregate Capital Charge $m
End-of-period		
Interest rate risk	633	51
Foreign currency risk	62	5
Equity risk	62	5
Peak end-of-day		
Interest rate risk	1,183	95
Foreign currency risk	62	5
Equity risk	62	5

Note 16 Risk management (continued)

Interest rate sensitivity

Sensitivity to interest rates arises from mismatches in the interest rate characteristics of assets and their corresponding liability funding. One of the major causes of these mismatches is timing differences in the repricing of assets and liabilities. These mismatches are actively managed as part of the overall interest rate risk management process, which is conducted in accordance with the Banking Group's policy guidelines.

The following table presents a breakdown of the earlier of the contractual repricing or maturity dates of the Banking Group's net asset position as at 31 March 2012. The Banking Group uses this contractual repricing information as a base which is then altered to take account of consumer behaviour to manage its interest rate risk.

	The Banking Group						
	31 March 2012 (Unaudited)						
	Up to 3 Months $m	Over 3 Months and up to 6 Months $m	Over 6 Months and up to 1 Year $m	Over 1 Year and up to 2 Years $m	Over 2 Years $m	Non-interest Bearing $m	Total $m
Financial assets							
Cash and balances with central banks	1,000	-	-	-	-	154	1,154
Due from other financial institutions	159	-	-	-	-	-	159
Derivative financial instruments	-	-	-	-	-	11	11
Trading securities	2,763	96	126	-	-	-	2,985
Available-for-sale securities	26	62	-	-	2,433	62	2,583
Loans	41,318	3,114	6,026	5,976	2,450	(680)	58,204
Due from related entities	1,531	-	-	-	-	49	1,580
Other assets	-	-	-	-	-	210	210
Total financial assets	46,797	3,272	6,152	5,976	4,883	(194)	66,886
Non-financial assets							999
Total assets							67,885
Financial liabilities							
Due to other financial institutions	-	-	-	-	-	3	3
Deposits	27,771	4,939	3,371	959	859	2,937	40,836
Derivative financial instruments	-	-	-	-	-	167	167
Debt issues	5,009	2,465	668	514	5,726	-	14,382
Other liabilities	-	-	-	-	-	489	489
Perpetual subordinated notes	970	-	-	-	-	-	970
Due to related entities	3,714	-	-	-	-	1,407	5,121
Total financial liabilities	37,464	7,404	4,039	1,473	6,585	5,003	61,968
Non-financial liabilities							166
Total liabilities							62,134
Off-balance sheet financial instruments							
Net interest rate contracts (notional):							
(Payable)/receivable	(3,564)	5,330	(1,068)	(2,894)	2,196	-	-

16.4 Liquidity risk

Liquid assets

The table below shows the Banking Group's holding of liquid assets and represents the key liquidity information provided to management. Liquid assets include high quality assets readily convertible to cash to meet the Banking Group's liquidity requirements. In management's opinion, liquidity is sufficient to meet the Banking Group's present requirements.

	The Banking Group
	31 March 2012 Unaudited $m
Cash and balances with central banks	1,154
Supranational securities	402
NZ Government securities	2,978
NZ public securities	225
NZ corporate securities	2,453
Residential mortgage-backed securities	3,992
Total liquid assets	11,204

Note 16 Risk management (continued)

Liquidity analysis

The following liquidity analysis for financial assets and financial liabilities presents the contractual undiscounted cash flows receivable and payable, and is based on the remaining period as at reporting date to the contractual maturity. The total balances in the tables below may not agree to the balance sheet as these tables incorporate all cash flows on an undiscounted basis, which include both principal and associated future interest income/expense accruals.

	The Banking Group						
	31 March 2012 (Unaudited)						
	On Demand $m	Less Than 1 Month $m	1 Month to 3 Months $m	3 Months to 1 Year $m	1 Year to 5 Years $m	Over 5 Years $m	Total $m
Assets							
Cash and balances with central banks	1,154	-	-	-	-	-	1,154
Due from other financial institutions	-	159	-	-	-	-	159
Derivative financial instruments:							
Held for trading	11	-	-	-	-	-	11
Held for hedging purposes (net settled):	-	-	1	(1)	-	-	-
Trading securities	-	779	1,636	310	276	54	3,055
Available-for-sale securities	-	76	20	1,216	148	1,647	3,107
Loans	6,829	6,824	4,116	4,782	19,496	45,150	87,197
Due from related entities:							
Non-derivative balances	1,580	-	-	-	-	-	1,580
Other assets	-	210	-	-	-	-	210
Total undiscounted financial assets	9,574	8,048	5,773	6,307	19,920	46,851	96,473
Liabilities							
Due to other financial institutions	-	3	-	-	-	-	3
Deposits	16,244	8,111	6,568	8,604	1,994	-	41,521
Derivative financial instruments:							
Held for hedging purposes (net settled)	-	10	7	37	111	8	173
Held for hedging purposes (gross settled):							
Cash outflow	-	-	20	58	2,085	-	2,163
Cash inflow	-	-	(57)	-	(1,858)	-	(1,915)
Debt issues	-	798	2,613	4,478	7,362	-	15,251
Other liabilities	-	489	-	-	-	-	489
Perpetual subordinated notes	-	-	-	-	-	970	970
Due to related entities:							
Non-derivative balances	3,725	48	-	-	-	-	3,773
Derivative financial instruments:							
Held for trading	(207)	-	-	-	-	-	(207)
Held for hedging purposes (net settled)	-	20	43	5	(32)	(1)	35
Held for hedging purposes (gross settled):							
Cash outflow	-	21	2,522	1,140	3,965	-	7,648
Cash inflow	-	-	(1,854)	(1,024)	(3,201)	-	(6,079)
Total undiscounted financial liabilities	19,762	9,500	9,862	13,298	10,426	977	63,825
Total contingent liabilities and commitments							
Loan commitments with certain drawdown	160	-	-	-	-	-	160
Other commitments to provide financial services	18,135	-	-	-	-	-	18,135
Total undiscounted contingent liabilities and commitments	18,295	-	-	-	-	-	18,295

Note 17 Concentration of funding

	The Banking Group 31 March 2012 Unaudited $m
Funding consists of	
Due to other financial institutions	3
Deposits	40,836
Debt issues[1]	14,382
Perpetual subordinated notes	970
Due to related entities[2]	3,714
Total funding	59,905
Analysis of funding by product	
Certificates of deposit	1,412
Savings accounts	9,045
Demand deposits	8,741
Other deposits	694
Term deposits	20,944
Debt issues	14,382
Perpetual subordinated notes	970
Subtotal	56,188
Due to other financial institutions	3
Due to related entities[2]	3,714
Total funding	59,905
Analysis of funding by geographical areas[1]	
New Zealand	44,309
Australia	818
United Kingdom	123
United States of America	4,925
Other	9,730
Total funding	59,905
Analysis of funding by industry sector	
Accommodation, cafes and restaurants	216
Agriculture	1,009
Construction	995
Finance and insurance	25,678
Forestry and fishing	141
Government, administration and defence	937
Manufacturing	1,176
Mining	96
Property	3,191
Services	3,580
Trade	1,158
Transport and storage	277
Utilities	323
Retail	16,293
Other	1,121
Subtotal	56,191
Due to related entities[2]	3,714
Total funding	59,905

1 The geographic region used for debt issues is based on the nature of the debt programmes. The nature of the debt programmes is used as a proxy for the location of the original purchaser. Where the nature of the debt programme does not necessarily represent an appropriate proxy, the debt issues are classified as 'Other.' These instruments may have subsequently been on-sold.

2 Amounts due to related entities, as presented above, are in respect of intra group deposits and borrowings and exclude amounts which relate to intra group derivatives and other liabilities.

Australian and New Zealand Standard Industrial Classifications have been used as the basis for disclosing industry sectors.

Note 18 Concentration of credit exposures

	The Banking Group 31 March 2012 Unaudited $m
On-balance sheet credit exposures consists of	
Cash and balances with central banks	1,154
Due from financial institutions	159
Derivative financial instruments	11
Trading securities	2,985
Available-for-sale securities	2,583
Loans	58,204
Due from related entities	1,580
Other assets	210
Total on-balance sheet credit exposures	66,886
Analysis of on-balance sheet credit exposures by industry sector	
Accommodation, cafes and restaurants	541
Agriculture	5,943
Construction	1,419
Finance and insurance	5,224
Forestry and fishing	283
Government, administration and defence	4,237
Manufacturing	2,260
Mining	262
Property	9,933
Property services and business services	1,910
Services	2,664
Trade	3,199
Transport and storage	1,278
Utilities	943
Retail lending	25,784
Other	44
Subtotal	65,924
Provisions for impairment charges on loans	(680)
Due from related entities	1,580
Other assets	62
Total on-balance sheet credit exposures	66,886
Off-balance sheet credit exposures	
Contingent liabilities and commitments	19,477
Total off-balance sheet credit exposures	19,477
Analysis of off-balance sheet credit exposures by industry sector	
Accommodation, cafes and restaurants	84
Agriculture	653
Construction	368
Finance and insurance	2,010
Forestry and fishing	55
Government, administration and defence	840
Manufacturing	1,383
Mining	351
Property services and business services	3,010
Trade	2,056
Transport and storage	583
Utilities	1,514
Retail lending	6,561
Other	9
Total off-balance sheet credit exposures	19,477

Australian and New Zealand Standard Industrial Classifications have been used as the basis for disclosing industry sectors.

Note 18 Concentration of credit exposures (continued)

Analysis of credit exposures to individual counterparties

The following credit exposures are based on actual credit exposures to individual counterparties and groups of closely related counterparties.

The number of individual bank counterparties (which are not members of a group of closely related counterparties), and groups of closely related counterparties of which a bank is the parent, to which the Banking Group has an aggregate credit exposure that equals or exceeds 10% of the Banking Group's equity:

- as at 31 March 2012 was nil; and
- in respect of peak end-of-day aggregate credit exposure for the three months ended 31 March 2012 was nil.

The number of individual non-bank counterparties (which are not members of a group of closely related counterparties), and groups of closely related counterparties of which a bank is not the parent, to which the Banking Group has an aggregate credit exposure or peak end-of-day aggregate credit exposure that equals or exceeds 10% of the Banking Group's equity:

- as at 31 March 2012 was one counterparty with a credit rating of A- or A3 or above, or its equivalent, having an aggregate credit exposure between 10%-14%; and
- for the three months ended 31 March 2012 was one counterparty with a credit rating of A- or A3 or above, or its equivalent, having a peak end-of-day aggregate credit exposure between 10%-14%.

The peak end-of-day aggregate credit exposures have been calculated by determining the maximum end-of-day aggregate amount of actual credit exposure over the relevant three-month period and then dividing that by the Banking Group's equity as at the end of the period.

Credit exposures to individual counterparties (not being members of a group of closely related counterparties) and to groups of closely related counterparties exclude exposures to connected persons, to the central government of any country with a long-term credit rating of A- or A3 or above, or its equivalent, or to any bank with a long-term credit rating of A- or A3 or above, or its equivalent. These calculations relate only to exposures held in the financial records of the Banking Group and were calculated net of individually assessed provisions.

Note 19 Events after the reporting date

On 2 April 2012, WSNZL issued covered bonds of CHF325 million ($435 million), which are guaranteed by the Bank and WNZCBL, under the Banking Group's global covered bond programme (see Note 6 Loans for further details of this programme).

On 9 May 2012, the Bank repurchased all 20,000 B voting shares from WOHL (representing the 12% of voting securities of the Bank that WOHL had a direct qualifying interest in). Each share was repurchased for $1 per share. These shares were immediately cancelled on repurchase.

On 25 May 2012, USD1,500 million ($1,993 million) of New Zealand Government guaranteed, non-domestic medium term notes of the Banking Group matured.

On 30 May 2012, the directors of the Bank resolved to pay a dividend of $250 million on the ordinary shares on issue to WNZGL.

Independent auditors' review report

Independent Auditors' Review Report

To the shareholder of Westpac New Zealand Limited

Report on the Financial Statements

We have reviewed pages 17 to 45 of the half year Disclosure Statement of Westpac New Zealand Limited (the "Bank") and the entities it controlled at 31 March 2012 or from time to time during the period (the "Banking Group"), which consists of the financial statements required by Clause 25 of the Registered Bank Disclosure Statements (New Zealand Incorporated Registered Banks) Order 2012 (the "Order") and the supplementary information required by Schedules 5, 7, 11, 13, 16 and 18 of the Order. The financial statements comprise the balance sheet as at 31 March 2012, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the six months then ended, and the notes to the financial statements that include a statement of accounting policies and other explanatory information for the Banking Group.

Directors' Responsibility for the Financial Statements

The Directors of Westpac New Zealand Limited (the "Directors") are responsible for the half year Disclosure Statement, which includes financial statements prepared in accordance with Clause 25 of the Order and that present fairly the financial position of the Banking Group as at 31 March 2012, and its financial performance and cash flows for the period ended on that date. The Directors are also responsible for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In addition, the Directors are responsible for the preparation and fair presentation of supplementary information in the half year Disclosure Statement which complies with Schedules 3, 5, 7, 11, 13, 16 and 18 of the Order.

Reviewers' Responsibility

We are responsible for reviewing the financial statements and the supplementary information, disclosed in accordance with Clause 25, Schedules 5, 7, 11, 13, 16 and 18 of the Order and presented to us by the Directors.

We are responsible for reviewing the financial statements (excluding the supplementary information) in order to report to you whether, in our opinion on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe that the financial statements have not been prepared, in all material respects, in accordance with New Zealand Equivalent to International Accounting Standard 34: Interim Financial Reporting.

We are responsible for reviewing the supplementary information (excluding the supplementary information relating to capital adequacy) in order to report to you whether, in our opinion on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe that the supplementary information does not fairly state the matters to which it relates in accordance with Schedules 5, 7, 13, 16 and 18 of the Order.

We are responsible for reviewing the supplementary information relating to capital adequacy in order to report to you whether, in our opinion on the basis of the procedures performed by us, anything has come to our attention that would cause us to believe that the supplementary information is not in all material respects:

(a) prepared in accordance with the Bank's Conditions of Registration;

(b) prepared in accordance with the Bank's internal models for credit risk and operational risk as accredited by the Reserve Bank of New Zealand; and

(c) disclosed in accordance with Schedule 11 of the Order.

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Independent auditors' review report (continued)

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A review is limited primarily to enquiries of the Banking Group's personnel and analytical review procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit on the financial statements and, accordingly, we do not express an audit opinion.

We have reviewed the financial statements of the Banking Group for the six months ended 31 March 2012 in accordance with the Review Engagement Standards issued by the New Zealand Institute of Chartered Accountants.

We carry out other assignments on behalf of the Banking Group in the areas of taxation advice and other assurance and advisory services. In addition, certain partners and employees of our firm may deal with the Banking Group and Westpac Banking Corporation Group on normal terms within the ordinary course of trading activities of the Banking Group and Westpac Banking Corporation Group. These matters have not impaired our independence as auditors of the Banking Group. We have no other interests in the Banking Group or Westpac Banking Corporation Group.

Opinion

Based on our review nothing has come to our attention that causes us to believe that:

(a) the financial statements on pages 17 to 45 (excluding the supplementary information) have not been prepared, in all material respects, in accordance with New Zealand Equivalent to International Accounting Standard 34: Interim Financial Reporting and do not present fairly the financial position of the Banking Group as at 31 March 2012 and its financial performance and cash flows for the six months ended on that date;

(b) the supplementary information prescribed by Schedules 5, 7, 13, 16 and 18 of the Order, does not fairly state the matters to which it relates in accordance with those Schedules; and

(c) the supplementary information relating to capital adequacy prescribed by Schedule 11 of the Order, is not, in all material respects:

- (i) prepared in accordance with the Bank's Conditions of Registration;
- (ii) prepared in accordance with the Bank's internal models for credit risk and operational risk as accredited by the Reserve Bank of New Zealand; and
- (iii) disclosed in accordance with Schedule 11 of the Order.

Restriction on Distribution or Use

This report is made solely to the Bank's shareholder. Our review work has been undertaken so that we might state to the Bank's shareholder those matters which we are required to state to them in a review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's shareholder, for our review procedures, for this report or for the opinions we have formed.

PricewaterhouseCoopers

30 May 2012

Chartered Accountants — Auckland

Westpac New Zealand Limited